Originally Processed With FOIA(s): FOIA Number:
S S

FOIA MARKER

This is not a textual record. This is used as an administrative marker by the George Bush Presidential Library Staff.

Record Group/Collection:	George H.W. Bush Presidential Records
Collection/Office of Origin:	Speechwriting, White House Office of
Series:	Speech File Backup Files
Subseries:	Chron File, 1989-1993

OA/ID Number:	13785
Folder ID Number:	13785-009

Folder Title:
Chicago Mercantile Exchange 12/10/91 [OA 8331] [3]

Stack:	Row:	Section:	Shelf:	Position:
G	26	22	1	3

15TH STORY of Level 1 printed in FULL format.

Institutional Investor

January, 1988

Melamed is working on sequel called "Cousins."

SECTION: LIFESTYLE; Pg. 19

LENGTH: 1497 words

HEADLINE: Creating a brave new world

BYLINE: By Susan Bigelow Hill

HIGHLIGHT:
Leo Melamed, the Chicago Merc's chief, is a science fiction buff who's now written a novel of his own.

BODY:

The cast includes the likes of Rafflo, Nan Nan and Slib Fru. The action takes place on Fletin, Cerd and Arl, where each night moons named Qalm, Quut and Usma trace their luminous paths from horizon to horizon, and the locals dine on Zamotian fruit -- tasty morsels containing message chips activated by the body's enzymes during digestion.

The scene is worlds -- indeed, galaxies -- removed from the pits, puts and hedges of the Chicago Mercantile Exchange. But for nearly five years such extraterrestrial exotica have been very close to the CME's executive board chairman, Leo Melamed, creator of countless alien realms and life forms in his first book -- a sci-fi thriller called The Tenth Planet (Bonus Books, Chicago; 318 pages; $ 8.95).

For Melamed, the man who fathered the first currency futures contract fifteen years ago and went on to play a pivotal role in the fantastic growth of financial futures, creativity and farsightedness have long been vital job skills. Since 1983, however, he has been employing these talents -- on weekends and as many as two nights a week -- inventing not futures but the future itself. Even while he was jogging, the novel stayed with him. "I'd think of a given problem or character in the book, get an answer and then race back to the house to write it down," Melamed recalls. Vacations, holidays and even the wee hours of the morning afforded no refuge from his project. "It became the master," he admits. "I was its slave."

Although "Prisoner of the Tenth Planet" is certainly a new moniker for Melamed, "sci-fi nut" most assuredly is not. It all began shortly after his parents fled Poland for Chicago just after the start of World War II. As a teenager, Leo Melamed was determined to devour "every important book by every author from A to Z." It was the V's that really got to him, specifically, Jules Verne and his classic, Twenty Thousand Leagues Under the Sea.

Melamed never even made it to the W, X, Y or Z authors. He had become hooked on science fiction. "I was amazed at how [Verne] painted a picture with such specificity that you could believe his fantastic plots were actually going to come to pass some day," he says of his childhood hero. Even when working his way through what is now the Chicago Circle campus of the University of Illinois, Melamed could always find time for science fiction -- and for appreciating its creators. They impressed him, he says, with their "flair for the bizarre" and by that not-so-simple act of "letting their imaginations go."

Indeed, nothing so mesmerized Melamed as sci-fi until the day, while in law school at John Marshall University, that he walked onto the floor of the Merc to take a part-time job as a runner. "I was enthralled with trading the moment I walked in the door," he confesses.

That passion, however, was a tad slow to flower into a career. It was not until 1965, nine years after he'd started his law practice, that Melamed finally succumbed to his yearning to become a commodities trader full time. Since then he has been an active trader eight hours a day, even while serving in his various other roles at the Merc -- product innovator, board member, chairman and special counsel (a position he still retains). And all the while he has remained an avid science fiction fan.

Collection

"I have bought most of the science fiction paperbacks that have ever been printed, and they're still on my bookshelves," he says. His favorite authors -- Larry Niven and Arthur C. Clarke -- were among the first to lift the genre's style out of the literary cellar, bringing polished writing skills to plots that did not scrimp on suspense and mystery. Niven's Mote in God's Eye, Melamed's favorite read, is a prime example. "I was unable to fathom the mystery until I'd read the solution at the end," he admits appreciatively.

In The Tenth Planet the mystery actually begins in the realm of fact, with the 1972 launch of Pioneer 10 from what was then Cape Kennedy. As Melamed explains in his prologue, that hugely ambitious space probe was designed to relay back pictures of Jupiter and then to continue on, literally ad infinitum, past the orbit of Pluto and out beyond our solar system. In a mere 8 million years, Pioneer 10 should reach the point in space where Aldebaran, the largest star in the constellation Taurus, is today.

As befits the planet's first-ever ambassador to the far reaches of the universe, the probe even carries a calling card -- a six-by-nine-inch plaque designed by Cornell University astronomer Carl Sagan and bolted to the antenna support struts. The plaque depicts male and female figures and gives Earth's return address in relation to the nine planets of the solar system.

When Melamed heard about the NASA launch, he realized the mission would be marvelous fodder for "some famous science-fiction author," as he puts it. In the fantasy that leaped to his mind, aliens would discover the probe and trace it back to earth via the plaque. For eleven years Melamed waited, but there were no takers -- famous or otherwise -- for the plot. Nineteen eighty-three was the last straw: Pioneer 10 actually departed the solar system with its "proverbial note in the bottle," Melamed recalls, and he simply assumed this unprecedented feat would provoke an outpouring of prose. But when he heard only a cosmic stillness, Melamed took up the project himself.

Before he could begin the writing, though, he had to gain a command of arcane facts to give his book a "ring of authenticity." He absorbed technical books on everything from evolution to extraterrestrial intelligence and spaceship design, as well as such classics as Charles Darwin's The Origin of Species and Jacob Bronowski's The Ascent of Man. Far from finding his research drudgery, Melamed found himself getting carried away, reading well beyond "what was essential for my book."

When he first sat down to write, Melamed's approach was anything but futuristic: He laboriously scratched out line after line in longhand. After six months of that tedium-cum-torture, he began dictating his tale to a secretary, who duly punched it into a word processor. Eventually, Melamed found even that system to be wanting, so he mastered the machine himself, and for the next four years the only time he used a pen was when he traveled -- always with at least two chapters in tow.

Throughout the pleasurable ordeal of writing a book, Melamed was unsure of precisely where it was leading him or, indeed, where he wanted it to lead. On the one hand, he didn't care whether or not the book ever found its way into print; but on the other, a combination of ego and sheer curiosity about his own abilities demanded of him a clearer resolution, a firmer verdict. "I realized I would never know if it was publishable unless it were accepted somewhere," he says.

Tricky logic

Melamed insists, though, that this curiosity had rational limits. For instance, he resisted the temptation to take the next step -- once he knew his novel had passed muster with a publisher -- and compare it with the work of sci-fi masters. That does not mean, however, that Melamed failed to aim high. What else would drive him to rewrite some chapters as many as a half dozen times and to revise others as many as ten times?

Melamed found it particularly tricky to sustain the logic of a long and complex piece. "I didn't want there to be a single flaw in logic so that someone could say it was nonsensical or out of order," he says. So every time he inserted a new subplot or character, Melamed was forced to go back into the text and check for consistency. By the end he had virtually committed the book to memory. "The editor could never trip me up," he says. "I knew where every word appeared."

For all his meticulous attention, Melamed also plainly had a lot of fun creating what he describes as "a whodunit with a sci-fi setting." The fanciful names alone attest to that. The reasons for choosing the ones he did: "They just came to me, and they sounded right."

Melamed's whimsy also shows a technological bent. He writes, for instance, of a "thought board" that allows characters to communicate ESP fashion. His authentic-sounding but wholly bogus "scientific" terms -- "mibcoptrin," "dacs" and "reyaasch," to cite just a few -- can be as perplexing as the real thing. Not to worry, though: Melamed dutifully provides a glossary.

Even before The Tenth Planet had left the bindery, Melamed was hard at work on a sequel. But in recent months he has had to put it on the shelf until he can find a way to write up to his own standards without the process dragging on for light-years. "Maybe I'll take some time off," he divulges. For now, he is clearly luxuriating in the sensation of being a published author. "I'm proud of my achievement because it was so long and difficult," he says. "It's a goal met."

GRAPHIC: Photo, The Chicago Merc's Melamed: "I'm proud of my achievement because it was so long and difficult", Steve Kagan

14TH STORY of Level 1 printed in FULL format.

Fortune

January 4, 1988, Domestic Edition

SECTION: FORTUNE PEOPLE; Pg. 82

LENGTH: 159 words

HEADLINE: Cutting out for space reasons

BYLINE: BY NANCY J. PERRY

BODY:

As the Chicago Mercantile Exchange gains notoriety for its index futures contracts, its trailblazing chief, Leo Melamed, is thinking adventurously about a future of a different kind. In his first science fiction novel, The Tenth Planet (Bonus Books, $8.95), Melamed, 55, envisions a world driven by Comvid chips, Dacs, and Galanoids rather than the S&P 500 contract and program trading.

He spins a tale of an advanced alien civilization that discovers a space probe from the planet Earth. Though the book took Melamed more than four years and a dozen revisions, writing was more fun than running the Merc. "It was a labor of love," he says, "while the Merc is a labor of masochism." Sure enough, within the next 12 months the chairman plans to step down from the post he has held for 18 years. "Frankly, I'm sick of it," he says of the flak the exchange has been taking since the crash. His first project will be to write a sequel to The Tenth Planet.

GRAPHIC: Picture, Trading futures for fiction, GWENDOLYN CATES -- CHICAGO MUSEUM OF SCIENCE AND INDUSTRY

The Honorable Derek Bok, president, Harvard University

Mr. Lodwrick M. Cook, chairman and chief executive officer, ARCO

The Honorable William A. Hewitt, former chairman, John Deere & Co.; former U.S. Ambassador to Jamaica

The Honorable Barbara Jordan, the Lyndon B. Johnson chair in national policy, University of Texas; former Member of Congress

The Honorable Nancy Kassebaum, U.S. Senate

The Honorable Lane Kirkland, president, AFL–CIO

The Honorable Henry A. Kissinger, chairman, Kissinger Associates, Inc.; former Secretary of State.

Mr. Robert H. Krieble, president, Krieble Associates

The Honorable Frederic V. Malek, vice chairman, Northwest Airlines; cochairman, Coldwell Banker Commercial Groups

Mr. Frank N. Piasecki, president and chief executive officer, Piasecki Aircraft

The Honorable Robert S. Strauss, partner, Akin, Gump, Strauss, Hauer & Feld; former chairman, Democratic National Committee; former U.S. Trade Representative

Mr. William T. Ylvisaker, president and chief executive officer, Corporate Focus, Inc.

A Board of Directors will be announced later.

Points of Light Recognition Program

The President named the following individuals and institutions as exemplars of his commitment to making community service central to the life and work of every American.

October 13

Association for the Blind and Visually Impaired of Lehigh County, of Allentown, PA

October 15

Gerald Martin, of Bell Buckle, TN

October 16

D.C. Central Kitchen, of Washington, DC

October 17

Nations Association, Inc., of Fort Myers, FL

October 18

Tacoma Community House, Tacoma, WA

October 19

Helping Us Grow Through Service and Smiles, of Colorado Springs, CO

Digest of Other White House Announcements

The following list includes the President's public schedule and other items of general interest announced by the Office of the Press Secretary and not included elsewhere in this issue.

October 14

In the afternoon, the President returned to the White House from a weekend stay at Camp David, MD.

October 15

The President met at the White House with:

—the Vice President; John H. Sununu, Chief of Staff to the President; Brent Scowcroft, Assistant to the President for National Security Affairs; and members of the CIA briefing staff;

—John H. Sununu, Chief of Staff to the President.

The President announced his intention to appoint John F. Reynolds III, of Connecticut, to be a member of the Advisory Council on Historic Preservation for a term expiring June 10, 1994. He would succeed Myna E. Wright. Currently Mr. Reynolds serves as a preservationist, restoration consultant, and an adaptive reuse developer in Middleton, CT.

October 16

In the afternoon, at the College of DuPage field house in Chicago, IL, the President presented the Presidential Citizen's Medal to Tony Zale, a former middleweight boxing champion, for his work with inner-city children in Chicago and telephoned Robert Dole, Senate minority leader, and Robert H. Michel, House Republican leader, to discuss the Federal budget.

The President announced his intention to appoint Robert Cy Laughter, of Ohio, to be a member of the American Battle Monuments Commission. He would succeed Esther Bradley. Currently Mr. Laughter serves as chairman of the board of Laughter Corp. in Dayton, OH.

October 17

The President met at the White House with:

—the Vice President; John H. Sununu, Chief of Staff to the President; Brent Scowcroft, Assistant to the President for National Security Affairs; and members of the CIA briefing staff;
—John H. Sununu, Chief of Staff to the President;
—Secretary of the Interior Manuel Lujan, Jr., chairman of the Combined Federal Campaign, to discuss the campaign;
—the Vice President, for lunch;
—Secretary of State James A. Baker III.

The President announced his intention to appoint David S. Lee, of California, to be a member of the Advisory Committee for Trade Policy and Negotiations for a term of 2 years. He would succeed James E. Burke. Currently Mr. Lee serves as president and chief executive officer of Qume Corp. in Milpitas, CA.

The President announced his intention to appoint the following individuals to be members of the Commission on Presidential Scholars:

Harry Dent, of South Carolina. He would succeed Mrs. Leslie D. Jamison. Currently Mr. Dent serves as a Christian lay minister in Columbia, SC.

Junia Doan, of Michigan. Currently Mrs. Doan serves as a partner with Doan Associates in Midland, MI.

Shirley N. Pettis-Roberson, of California. She would succeed Vivienne Raven Cooke.

Robert Melvin Worthington, of New Jersey. He would succeed Edward J. Joffe, Sr. Currently Dr. Worthington serves as an education consultant in Edgewater Park, NJ.

The President announced his intention to appoint the following individuals to be members of the U.S. Holocaust Memorial Council for the terms indicated:

Bradley A. Blakeman, of New York, for the remainder of the term expiring January 15, 1991, and for a term expiring January 15, 1996. He would succeed Marvin G. Kelfer. Currently Mr. Blakeman serves as an attorney with the law firm of Robert M. Blakeman & Associates in Valley Stream, NY.

Set Momjian, of Pennsylvania, for a term expiring January 15, 1995. He would succeed Richard Schifter. Currently Mr. Momjian serves as a marketing executive for Ford Aerospace in Arlington, VA.

October 18

The President met at the White House with:

—John H. Sununu, Chief of Staff to the President; Brent Scowcroft, Assistant to the President for National Security Affairs; and members of the CIA briefing staff;
—John H. Sununu, Chief of Staff to the President.

The President announced his intention to appoint Roger J. Whyte, of Maryland, to be a member of the National Commission for Employment Policy for a term expiring March 20, 1992. He would succeed John A. Rocco. Currently Mr. Whyte serves as a senior partner with A.T. Kearney Executive Search in Alexandria, VA.

The White House announced that the President ratified the treaty on the reunification of Germany, which was signed in Moscow on September 12.

In the evening, the President called Benjamin L. Hooks, executive director of the National Association for the Advancement of Colored People, and William T. Coleman, Jr., a representative of civil rights groups, to discuss the civil rights bill before Congress.

October 19

The President met at the White House with:

—John H. Sununu, Chief of Staff to the President; Brent Scowcroft, Assistant to the President for National Security Affairs; and members of the CIA briefing staff;
—John H. Sunu
President;
—Yevgeniy Pri
Soviet Presid
recently met
Hussein of Ira
—Secretary of

The President
aster exists in Ge
storms and floodi
11. He directed
Management Age
to supplement St
forts.

In the afternoo
the congressiona
Hill to discuss t

The White Hou
proximately 6 p.m
resolution providi
government ope
Wednesday, Octo

In the evening
Bush went to Ca
end.

Nominations
Submitted to the

The following lis
tions of members
nominations to t
nominations of F

Submitted Octobe

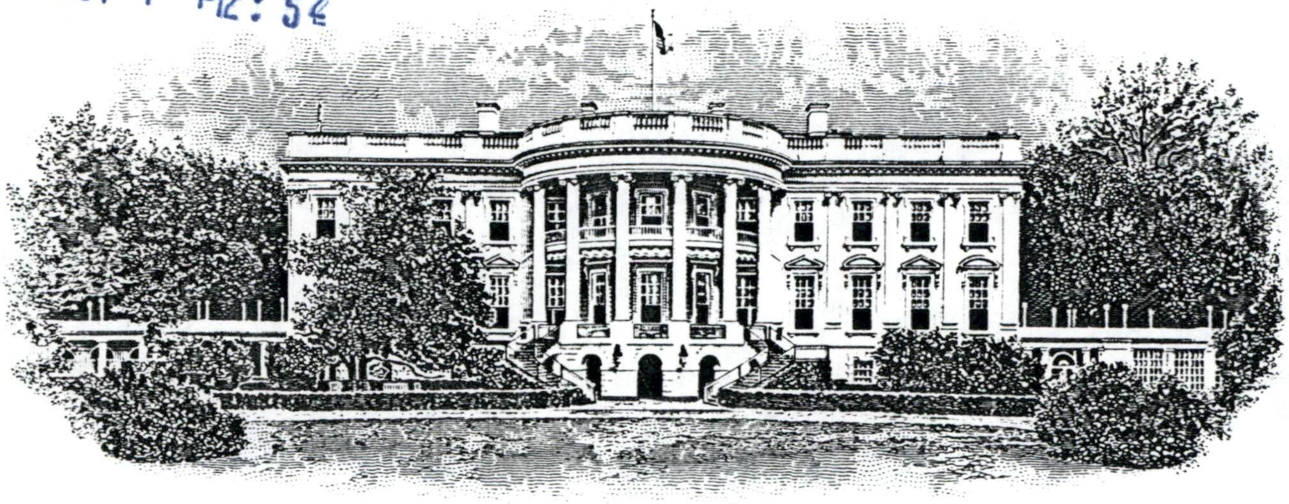
William W. Treat,
of New Hampshi
of the United Sta
session of the
United Nations.

James R. McGreg
of Pennsylvania, t
Judge for the W
vania, vice Gerald

THE WHITE HOUSE

WASHINGTON

91 NOV 4 P12:54



FACSIMILE TRANSMITTAL SHEET

DATE 12-5-91

TO Joe Whelan

FAX NUMBER (312) 930-3439

OFFICE NUMBER

NUMBER OF PAGES INCLUDING COVER 3

DEPARTMENT OF COMMUNICATIONS

FROM Michele Nix

COMMENTS

OFFICE NUMBER (202) 456-7750

PRESIDENT GEORGE BUSH

41st PRESIDENT OF THE UNITED STATES

Born: June 12, 1924
Milton, Massachusetts

Married: Barbara Pierce, January 6, 1945
First Presbyterian Church (Rye, New York)

Children:
George Walker Bush (Born: 7/6/46)
Spouse: Laura Welch Bush
Children: Jenna Welch Bush (1981)
Barbara Pierce Bush (1981)
John Ellis Bush (Born: 2/11/53)
Spouse: Columba Garnica Bush
Children: George Prescott Bush (1976)
Noelle Lucila Bush (1977)
John Ellis Bush, Jr. (1983)
Neil Mallon Bush (Born: 1/22/55)
Spouse: Sharon Smith Bush
Children: Lauren Pierce Bush (1984)
Pierce Mallon Bush (1986)
Ashley Walker Bush (1989)
Marvin Pierce Bush (Born: 10/22/56)
Spouse: Margaret Molster Bush
Children: Marshall Lloyd Bush (1986)
Charles Walker Bush (1989)
Dorothy Walker Bush LeBlond (Born: 8/18/59)
Children: Samuel Bush LeBlond(1984)
Nancy Ellis LeBlond (1986)

Grandchildren: 12 (listed above)
Dogs: Millie and Ranger (English Springer Spaniels)
Religion: Episcopalian
Church: St. Martin's Episcopal, Houston, Texas
Sports: Fishing, Tennis, Golf, Jogging, Horseshoes, Boating
Salary: $200,000
Height: 6' 2"

Residences

Washington, DC: **The White House** - Completed in 1800, the home to every President except George Washington. (A popular address, the White House receives over 6 million pieces of mail each year.)

Kennebunkport, Maine: **Walker's Point** - (summer home) Completed in 1905 by his maternal grandfather, George Herbert Walker, the house was partially destroyed by a storm in 1978. The President bought the estate from his Aunt, Mrs. G.H. Walker, Jr., on January 16, 1981 and the house was rebuilt by Longley Philbrick, a Kennebunkport builder.

Houston, Texas: **North Post Oak Lane** - Texans since 1948, the Bushes first moved to Houston in 1959. Throughout their years of public service, Houston has remained their legal residence.

(The Bushes have resided in 17 cities and 29 homes since their marriage.)

Education

Secondary School:	Greenwich Country Day School (Greenwich, Connecticut)	
High School:	Phillips Academy, graduated 1942 (Andover, Massachusetts)	
College:	Yale University, graduated 1948 (New Haven, Connecticut)	
	Major:	Economics
	Fraternity:	Delta Kappa Epsilon
	Sports:	Baseball (captain, 1st base), played in 2 NCAA World Series Varsity Soccer, 1 year
	Honors:	Phi Beta Kappa Torch Honor Society Gordon Brown Prize for "all-around" student leadership
Professorship:	1977-78 - Adjunct Professor of Business, Rice University	
Honorary Degrees:	44 as of May 19, 1990	

Military Service

Rank:	Navy Pilot, Lieutenant, j.g. 1942-45 Entered as a Seaman 2nd Class. Received his wings and commission, June, 1943.
Active Duty:	Flew torpedo bombers (TBM Avenger) in the Pacific off the USS San Jacinto (CVL-30), 12/15/43 - 11/29/44
Honors:	Distinguished Flying Cross Three Air Medals

Business

1948-51	Oilfield Supply Salesman, Dresser Industries/IDECO West Texas and California
1951-53	Co-Founder, Bush-Overbey Development Corporation Midland, Texas (royalty firm)
1953-59	Co-Founder, Zapata Petroleum Midland, Texas
1959-66	Co-Founder, Zapata Offshore Company Houston, Texas (Zapata pioneered in experimental off-shore drilling equipment)
1977-78	Executive Committee Chairman, First International Bank of Houston Houston, Texas

Government Service

01/67-01/71	**U.S. Representative**, Texas 7th District Committee: Ways and Means
02/71-01/73	**U.S. Ambassador to the United Nations**
10/74-12/75	**Chief, U.S. Liaison Office in the People's Republic of China**
01/76-02/77	**Director, Central Intelligence Agency**
01/81-01/89	**Vice President of the United States**
01/89-Present	**President of the United States** Won 40 States and a 426-112 Electoral College vote

Political

01/73-09/74	**Chairman, Republican National Committee**

Autobiography

1987	*Looking Forward* with Victor Gold (Doubleday)

4:30 P.M. NEWS UPDATE

economist Bus. School

ECONOMY (Chicago/UPI) -- A panel of economists projected the U.S. economy is 1992 will have moderate growth with unemployment hovering from 6% to 6.7%. The forecasts, including calls for tax cuts, came at the 30th annual Business Forecast Luncheon at the University of Chicago.

HOSTAGES/ANDERSON (Damascus/Reuter) -- Terry Anderson was handed over to U.S. Ambassador Christopher Ross at the Syrian Foreign Ministry in Damascus, witnesses said.

ISRAELI SETTLEMENTS/U.S. (Reuter) -- The U.S. criticized the establishment of a new Israeli military settlement in the occupied West Bank, saying the timing was particularly unfortunate when peace talks were struggling to get under way. "We are particularly disturbed at this development on the eve of the resumption of bilateral talks," said Margaret Tutwiler.

PAN AM BOMBING/LIBYA (Cairo/UPI) -- Libya is seeking an emergency Arab League meeting in Cairo amid apparent concern over the possibility of a U.S. military strike if Tripoli refuses to extradite two Libyans accused of bombing a Pan Am airliner. In a related development, the 16 NATO nations called on Libya to sever its ties with terrorist groups and comply with Western demands to extradite the suspects.

(Paris/Reuter) -- Libya has detained two suspects wanted by U.S. and Britain authorities over the bombing, the Libyan Ambassador to France said Wednesday. "The two people are definitely detained, there is no doubt about that," he told Reuters in a telephone interview. Ambassador Saad Mujber said the men were under investigation but there was little evidence against them.

CIA/GATES (Reuter) -- The U.S. has stepped up its intelligence gathering on the Soviet Union in what the new director of the CIA described Wednesday as "an unprecedented effort."... In a speech prepared for delivery to members of the CIA and other U.S. spy agencies, Robert Gates said "we have undertaken an unprecedented effort to gather information from throughout the lands of the former Soviet Union in order to assess the political, economic, social and military reality."

AIDS GUIDELINES (Atlanta/UPI) -- The CDC said it is revising its plan to list procedures that health care workers infected with the AIDS virus should not perform.... "CDC has drafted revised recommendations for preventing transmission of HIV and hepatitis-B virus to patients during invasive surgery," the CDC said in a statement.... Bob Howard, CDC press officer, denied published reports that the CDC has decided to drop a list of surgical and dental procedures that HIV-infected health care workers should not perform. No decision has been made on that issue, he said.

HAITI (Port-Au-Prince/UPI) -- Soldiers fired on the Presidential Palace Tuesday night.... Witnesses were unable to identify the units involved, and the reason for the assault on the palace was unclear.

-more-

REFUGEES/HAITI (Miami/UPI) -- The Justice Department asked an appeals court to delay a court order preventing the Coast Guard from repatriating Haitians fleeing the poverty and military regime in their country.... Joe Krovisky, a spokesman for the Justice Department, said a motion for a stay of Judge C. Clyde Atkins' order was filed and a formal appeal was being drafted.

BYELORUSSIA/SECRETARY BAKER (Reuter) -- Secretary Baker will visit Byelorussia later this month on a trip to the Soviet Union, the State Department said. Margaret Tutwiler said the fact that Byelorussia had nuclear arms stationed on its soil was a major reason for adding the republic to the trip, which also includes stops in Moscow and Kiev.

KENYA (Nairobi/Reuter) -- Western governments that pressed Kenyan President Daniel Arap Moi for political reform welcomed his move to lift a ban on opposition parties and clear the way for multi-party elections.... "We consider this move toward pluralism an important step in the right direction," a U.S. Embassy statement said. "We are confident...other political parties and political organizations will soon be authorized to form, register, meet and operate without restriction," it added.

###

91 NOV 3 P12: 48

CHICAGO MERCANTILE EXCHANGE

MEMORANDUM

To: **Michelle Nix**
White House speechwriting office

From: Andy Yemma
VP Communications, CME

December 4, 1991

Re: Background materials

Michelle, attached are 23 pages of background materials, including:

1. CME backgrounder (3 pages)

2. What is risk management? (1 page)

3. List of Contracts (2 pages)

4. Statistics, including volume of trade for past 10 years. (2 pages)

5. Speech by John F. Sandner, Chairman of the CME (15 pages).

Feel free to use any or all. Feel free to call at any time for anything you need. Best regards,

Andy Yemma

30 South Wacker Drive Chicago, Illinois 60606 312/930-1000

LONDON NEW YORK WASHINGTON, DC TOKYO

City/State: Chicago, IL
Event: Address Mercantile Exchange
Date: 12/3/91

OFFICE OF PRESIDENTIAL ADVANCE
CONTACT SHEET

Name	Office	Phone Number
Presidential Advance Office		202/456-7565
Presidential Advance Fax Number		202/456-2820
Leo Tonkin	WH Advance	202/456-7565
Kris Goodwin	" "	" "
Kelley Eannen	WH Advance for Press	~~202~~ " "
JENNIFER GROSSMAN	WH PRESIDENTIAL SPEECHWRITING	(202) 456-7750
Charlie DeVita	USSS - PPD	(202) 395-4011
Barbara Golden	USSS - Chicago	(312) 353-5431
Bill Dunne	USSS - Chicago	(312) 353-5431
Mike Gould	Military Aide	202 395 1747
Fred Anderson	Marine One Advance	(703) 640-2364
ANDREW YEMMA	CME Media	312 930-3434 (708 328 0127 (home))
DAN FIERRO	ADMINISTRATION	312.930.8251
Jim ARCHIBALD	SECURITY	312-930-8220
Donna Kozak	CME CLUB	312-930-3050
KATE SHANNON	CME MEDIA	312-930-3435
Ellie Santana	CME Public Affairs	312/930-8492
Meg Williams	CME Public Affairs	312-930-8230
Carol Sexton	CME Public Affairs	(312) 930-8238
LYN KENNELLY	WH LEAD	TBD - Hyatt
ANDY FOSTER	WH POLITICAL AFFAIRS	202 456 6510
Jeff Vogt	WH Office of Public Liaison	202-456-7845
MARK BARNETTE	WH COMMUNICATIONS AGENCY	202-395-2000/312-565-12
DAVE MILLER	WH COMM AGENCY LEAD @ Hyatt Regency	312/565-1234

THE CHICAGO MERCANTILE EXCHANGE

BACKGROUNDER

The Chicago Mercantile Exchange (CME), founded in 1919, is the world's leading financial futures and options exchange. An international marketplace, it is the most diversified exchange in the world. The CME trades futures and futures-options contracts on agricultural commodities, currencies, interest rates and stock index products. One-third of the CME's business comes from overseas.

The CME Center is located at 30 South Wacker Drive in Chicago and consists of twin 40-story office towers connected by a state-of-the-art trading complex. The complex includes two trading floors totalling 70,000 square feet, 34 trading pits and over 1200 individual communication booths. The Exchange maintains offices in New York, Washington, D.C., London and Tokyo.

The CME is a not-for-profit corporation consisting of and owned by its members. It provides an open forum for trading futures and futures-options. The Exchange establishes and enforces trading rules and collects and disseminates information on transactions executed on its trading floor.

The Exchange membership, numbering 2,724, is comprised of independent traders and brokers as well as representatives of major brokerage firms, banks, investment houses and corporations. These members execute trades for themselves, for others, or both. All CME memberships are approved by the Exchange's Board of Governors and are purchased from existing members at prevailing market prices. All members are qualified (guaranteed) by a CME Clearing Member firm.

Three types of membership may be purchased on the Exchange:

* The full Chicago Mercantile Exchange (CME) Division membership entitles the owner to execute trades in any contract offered on the Exchange.

* The International Monetary Market (IMM) Division membership entitles the owner to execute trades in all IMM and IOM futures and futures-options contracts, i.e., all currency futures, interest rate futures and stock index futures contracts as well as all futures-options contracts.

* The Index and Option Market (IOM) Division membership entitles the member to execute trades in all IOM futures and futures-options contracts, i.e., all stock index futures contracts, random length lumber contracts and all futures-options contracts.

Record seat prices on the Exchange are:

CME -- $550,000 on March 9, 1989
IMM -- $475,000 on April 28, 1989
IOM -- $180,000 on September 21, 1987

TRADING VOLUME

In 1990, the CME traded just under 103 million contracts. Between 1980 and 1990, overall volume at the CME increased 460 percent -- nearly twice the industry rate. The key to CME growth is found in its diversity: the Exchange trades four product groups -- agricultural, currency, interest rate and stock index.

Financial futures and options are responsible for a great deal of this spectacular growth, accounting for approximately 90 percent of all trading at the CME in 1990 and representing a 60 percent industry-wide market share.

CME 1990 volume was led by Eurodollar futures which traded more than 34 million contracts, making it the industry's second most active contract. Over 12 million futures contracts were traded on the S&P 500 stock index in 1990, the largest equity index product traded in the world.

The 1983 introduction of options on the S&P 500 stock index futures contract paved the way for a new era of growth and possibilities; the CME now trades 20 options on futures. In 1990 the CME recorded annual volume of more than one million on five of those options contracts.

INTERNATIONAL MOMENTUM

The CME is programmed for diversification and internationalization. In 1980, the CME was the first U.S. Exchange to open an office in Europe. The CME established an historic bridge to the markets of the Pacific Rim in 1984 with its mutual offset trading link to the Singapore International Monetary Exchange (SIMEX). In April 1987, the CME reaffirmed that global commitment with the opening of its Tokyo office.

In September 1987, in response to the demands of globalization, the Chicago Mercantile Exchange and Reuters Holdings PLC entered into an historic long-range agreement to create an "after hours" global electronic automated transaction system for the trading of futures and futures-options. The concept embodied in GLOBEX® embraces the realities brought about by technological advancements of recent years and takes a giant step toward unification of the world's separate financial centers. The Chicago Board of Trade agreed to become a GLOBEX partner in 1990. The Marche a Terme International de France (MATIF), became a GLOBEX partner in 1989. GLOBEX is under development and is expected to go on line in 1992.

CME CONTRACTS

CME FUTURES:

AGRICULTURAL CONTRACTS
- Live Cattle
- Live Hogs
- Feeder Cattle
- Frozen Pork Bellies
- Broiler Chickens

IMM FUTURES:

CURRENCY CONTRACTS
- Australian Dollar
- British Pound
- Canadian Dollar
- Deutschemark
- Japanese Yen
- Swiss Franc
- British Pound/Deutsche Mark Cross Rate
- Deutsche Mark/Japanese Yen Cross Rate
- Deutsche Mark/Swiss Franc Cross Rate

INTEREST RATE CONTRACTS
- Three-Month Eurodollar
- U.S. Treasury Bill
- One-Month LIBOR

IOM FUTURES:

STOCK INDEX CONTRACT
- Standard & Poor's 500 Stock Index
- Nikkei 225

OTHER
- Random Length Lumber

IOM OPTIONS ON FUTURES:

AGRICULTURAL CONTRACTS
- Live Cattle
- Live Hogs
- Feeder Cattle
- Frozen Pork Bellies
- Broiler Chickens

CURRENCY CONTRACTS
- Australian Dollar
- British Pound
- Canadian Dollar
- Deutschemark
- Japanese Yen
- Swiss Franc
- British Pound/Deutsche Mark Cross Rate
- Deutsche Mark/Japanese Yen Cross Rate
- Deutsche Mark/Swiss Franc Cross Rate

CME CONTRACTS - continued

<u>INTEREST RATE CONTRACT</u>

Eurodollar
U.S. Treasury Bill
One Month LIBOR

<u>STOCK INDEX CONTRACT</u>

Standard & Poor's 500 Stock Index
Nikkei 225

<u>OTHER</u>

Random Length Lumber

10/91

CHICAGO MERCANTILE EXCHANGE

A HISTORY OF INNOVATION

1874	The Chicago Produce Exchange is established to provide a systematic market for butter, eggs, poultry and other farm products.
1898	A division of the Produce Exchange forms the Chicago Butter and Egg Board.
1919	The Butter and Egg Board becomes the Chicago Mercantile Exchange to better reflect its purpose and to accommodate public participation.
1961	A frozen pork belly futures contract begins trading on the CME -- the first futures contract based on frozen, stored meats.
1964	The CME introduces a live cattle futures contract -- the first futures contract based on live animals.
1969	The Chicago Mercantile Exchange Trust was established to provide financial assistance, on a discretionary basis, to customers of any clearing member which should become insolvent. The Trust, the first of its kind for any exchange, is funded through contributions of profits from Exchange operations.
1972	The International Monetary Market (IMM) is created with trading of seven foreign currencies -- the first financial futures contracts traded.
1977	The CME is the first futures exchange to open an office in Washington D.C.
1980	The CME opens its London office -- the first overseas office established by a U.S. futures exchange.

A lot of firsts for CME

30 South Wacker Drive Chicago, Illinois 60606 312/930-1000

LONDON NEW YORK WASHINGTON, DC TOKYO

A HISTORY OF INNOVATION

- continued -

Celebrating 10th anniversary

1981	The CME introduces Eurodollar futures, the first cash settled contract, which paves the way for futures on stock indexes.
1982	The CME opens its Index and Option Market (IOM) for the trading of stock index and options products. It opens trading with the S&P 500 stock index futures contract.
1984	The CME/SIMEX mutual offset trading link is established -- the first international futures link.
1985	The CME signs a licensing agreement with NKS to market and trade Nikkei Stock Average futures contracts.
1986	CME/NYSE Task Force is established to work on solutions to common problems and issues.
1987	The CME opens an office in Tokyo, the first by a foreign futures exchange.
1988	The CME and Reuters finalize agreement for GLOBEX, a post market global electronic transaction system.
1989	CME and CBOT announce plans to co-develop electronic hand-held AUDIT (Automated Data Input Terminal) system, for the purpose of real time trade recordation.

CHICAGO MERCANTILE EXCHANGE

91 NOV 3 P1:58

TELEFAX MESSAGE

TO: Michelle Nix - WHITE House

FROM: Andy Yemma

DATE: 12/4/91

4 pages will follow this cover page.

Please call (312) 930-3436 if there are any problems with this transmission.

NOTES:

30 South Wacker Drive Chicago, Illinois 60606 312/930-1000

LONDON NEW YORK WASHINGTON, DC TOKYO

CHICAGO MERCANTILE EXCHANGE

JOHN F. SANDNER
CHAIRMAN
BOARD OF GOVERNORS

John F. (Jack) Sandner is serving a record seventh term as Chairman of the Board of Governors of the Chicago Mercantile Exchange, having most recently been elected to a one-year term in January 1991. He was first elected chairman in 1980 and served for three consecutive terms through 1982, followed by three years as the Board-appointed Legislative Liaison. He was re-elected Chairman in 1986 and served through 1988. In 1989 and 1990 he served in the post of Senior Policy Advisor. Under CME rules, a Chairman is limited to three consecutive one-year terms.

Mr. Sandner joined the CME as a member in 1971. Since then he has served on and been Chairman of numerous committees, including the International Steering Committee, Strategic Planning Committee, Financial Instruments Steering Committee, Agricultural Steering Committee, Building Improvement and Real Estate and Special Real Estate Planning Committees, Political Action Committee, Arbitration, Business Conduct, Floor Facilities and Operation, Rules, Live Cattle, Feeder Cattle and Probable Cause committees.

Mr. Sandner is president and chief operating officer of Rufenacht, Bromagen & Hertz, Inc. (RB&H, Inc.), a position he has held since January 1978.

Born November 3, 1941, the Chicago native graduated valedictorian from high school and received his undergraduate Bachelor of Arts degree in 1965 from Southern Illinois University. He earned a Doctor of Jurisprudence degree from the University of Notre Dame in 1968. The Law School awarded him the Dean Clarence Manion Award and he won the 3-year Moot Court Competition the same year. He was admitted to the Illinois Bar in 1968.

Mr. Sandner formerly was a trial attorney with Lane and Monday, and currently is a member of the American Arbitration Association. He has been admitted to practice before the Supreme Court of the United States, the U.S. Court of Appeals, the U.S. District Court and the Supreme Court of Illinois.

In addition to serving as a CME Governor since 1977, Mr. Sandner is on the University of Notre Dame Law Advisory Council (1988 to present), the Board of Directors of Notre Dame Law Association (1984 to present) and the Board of Directors of the National Futures Association (1982 to present), where he also has served as Chairman of the Central Region Business Conduct Committee for nine years. In addition, in 1980 he was appointed to the Illinois Secretary of State's Commodities Advisory Committee. He is a founding member of the Board of Directors of the International Press Center Chicago.

Mr. Sandner is married and has six children.

07/91

30 South Wacker Drive Chicago, Illinois 60606 312/930-1000

LONDON NEW YORK WASHINGTON, DC TOKYO

CHICAGO MERCANTILE EXCHANGE

WILLIAM J. BRODSKY
PRESIDENT AND CHIEF EXECUTIVE OFFICER

William J. Brodsky joined the Chicago Mercantile Exchange on September 7, 1982 as Executive Vice President and Chief Operating Officer. On June 1, 1985, he succeeded Clayton Yeutter as President and Chief Executive Officer.

Prior to joining the CME, Mr. Brodsky was with the American Stock Exchange from 1974 to 1982 and held the title of Executive Vice President for Operations between 1979 and 1982. From 1968 to 1974, Mr. Brodsky was an attorney with the New York investment banking and securities brokerage firm of Model, Roland and Company.

Mr. Brodsky received an A.B. degree from Syracuse University in 1965 and a J.D. degree from the Syracuse University College of Law in 1968. He is a member of the bar in New York and Illinois.

At Syracuse University, Mr. Brodsky serves on its Board of Trustees, the Endowment Committee and the Board of Visitors of its College of Law.

Currently, he is a Board Member of the Chicago Council on Foreign Relations, J. L. Kellogg Graduate School of Management Advisory Council, and the Chicago Association of Commerce and Industry. He is a member of the Commercial Club of Chicago and The Economic Club of Chicago.

He also serves on the boards of the Japan American Society of Chicago, the Swiss Commodities, Futures and Options Association, and the International Futures and Commodities Institute in Geneva.

02/91

30 South Wacker Drive Chicago, Illinois 60606 312/930-1000
LONDON NEW YORK WASHINGTON, DC TOKYO

Leo Melamed — will be w/POTUS

CHICAGO MERCANTILE EXCHANGE

LEO MELAMED
CHAIRMAN EMERITUS

Leo Melamed, Chairman Emeritus of the Chicago Mercantile Exchange (CME), is widely-recognized as the founder of financial futures. During his first term as Chairman of the CME (1969-1971), the Exchange pioneered the concept of foreign currency futures and created the International Monetary Market (IMM), the first futures market for financial instruments. Mr. Melamed was Chairman of the IMM until its merger with the CME in 1976, when he became Chairman of the combined institution. In 1977, the CME Board created the office of Special Counsel to the Board of Governors, an office he maintained in conjunction with his position as Chairman of the Executive Committee until his retirement from CME officialdom at the end of 1990.

Under Mr. Melamed's leadership from 1967 to 1991, the CME was transformed from a secondary domestic agricultural exchange to the foremost financial futures marketplace in the world. In 1984, he spearheaded the concept of international linkages between exchanges by instituting a trading link between the CME and the Singapore International Monetary Exchange (SIMEX). In 1987, Mr. Melamed extended this idea on a global scale by introducing GLOBEX, an electronic "after-hours" trading system, developed in conjunction with Reuters Holdings PLC. Mr. Melamed is the Chairman of the GLOBEX Corporation, which, beginning in 1990, became the unified electronic system for the Chicago Board of Trade (CBOT) and the CME.

In 1982, Mr. Melamed led the futures industry toward the creation of a congressionally-sanctioned self-regulatory body, the National Futures Association (NFA), and served as Chairman from its inception through 1989. Mr. Melamed has been an advisor to the Commodity Futures Trading Commission (CFTC) and has lectured and written extensively on the subject of financial futures markets. Mr. Melamed was Editor of An Anthology: The Merits of Flexible Exchange Rates, published in 1988. He is also the author of a science fiction novel, The Tenth Planet, published in 1987.

joke here

On a business level, Mr. Melamed is an active futures trader and is Chairman and CEO of Dellsher Investment Company Inc., a Futures Commission Merchant. Mr. Melamed is an attorney, having received his Doctor of Laws Degree (JD) from the John Marshall Law School, Chicago, Illinois, 1955.

M. Miller– Unconfirmed but expected to attend.

MERTON H. MILLER
CHICAGO MERCANTILE EXCHANGE
PUBLIC GOVERNOR

Merton H. Miller is the Robert R. McCormick Distinguished Service Professor of Finance at the Graduate School of Business, University of Chicago. Professor Miller was awarded the Nobel Memorial Prize in Economic Science in 1990 for his work in the area of corporate finance.

A Graduate School of Business faculty member since 1961, Professor Miller has written extensively on a variety of topics in economics and finance. Along with Franco Modigliani of M.I.T., he developed the often cited "M&M Theorems" on capital structure and dividend policy that are the foundations of the theory of corporate finance.

Professor Miller received an A.B. from Harvard University in 1944 and a Ph.D. from The Johns Hopkins University in 1952. He began his career as an economist in 1943 with the U.S. Treasury, Division of Tax Research. In 1947, he joined the Board of Governors of the Federal Reserve System, where he remained until 1949. Following a term as an assistant lecturer at the London School of Economics, he joined the faculty of the Graduate School of Industrial Administration at the Carnegie Institute of Technology, in 1953. He taught economics and industrial administration there until his appointment at the University of Chicago in 1961.

Professor Miller is the author of numerous publications, including Macroeconomics: A Neoclassical Introduction (with C. Upton, 1974), The Theory of Finance, (with E. F. Fama, 1972), and "The Cost of Capital, Corporation Finance and the Theory of Investment" (with F. Modigliani, 1958).

Professor Miller served as Chairman of the Committee of Inquiry appointed by the CME to examine the events surrounding the market drop of October 19, 1987. He was appointed a Distinguished Fellow by the American Economic Association in 1990 and a Fellow by the American Academy of Arts and Sciences in 1989.

01/91

WHAT IS RISK MANAGEMENT?

The fundamental economic purpose of business conducted at the Chicago Mercantile Exchange is risk management.

Simply put, our form of risk management enables a businessperson to reduce or otherwise limit the risk inherent in taking a position in a market. In a sense it is like insurance. And it is increasingly being used by saavy money managers to cope with the market volatility that comes with today's economy.

Examples:

1. A rancher raising live cattle uses the Chicago Mercantile Exchange live cattle futures (or options) to sell his cattle before they are ready for market. He locks in a price, thereby reducing his risk that the price of cattle will fall before he could sell them in the cash market.

2. A pension fund manager owns a huge portfolio of stocks on behalf of thousands of pensioners. He fears the stock market is overvalued and may fall. He sells S&P 500 stock index futures contracts at the Chicago Mercantile Exchange. If the market falls, his stocks lose value but his futures position gains value and offsets his loss. He reduces his risk without selling his stocks and incurring large associated transaction costs.

3. A corporate treasurer at a manufacturing company has just signed a contract to deliver $1 million worth of parts to a German buyer, six months hence. In six months, the dollar may have lost value against the Deutschemark, thereby reducing or eliminating his profit. He comes to the Chicago Mercantile Exchange and, using futures and-or options, can lock in a price in Deutschemarks in advance of delivery, thereby eliminating his currency risk. This example could also occur with a variety of foreign currencies.

4. A commercial banker takes in $100 million in short-term deposits and agrees to pay interest of 7 percent. The banker loans out the $100 million at 9 percent. The banker runs the risk that interest rates will fall, or rise and eliminate his profit on the interest rate spread between his deposits and loans. He can reduce or eliminate this risk by using interest rate futures and options at the Chicago Mercantile Exchange. The most widely used are the 3-month Eurodollar futures and options, which currency have nearly 2 million outstanding positions in the market, representing nearly $2 trillion in deposits and loans under risk management.

Chicago Board of Trade

CHICAGO MERCANTILE EXCHANGE®

CONTACTS: ANDREW YEMMA, CHICAGO MERCANTILE EXCHANGE
(312) 930-3434

DAVID PROSPERI, CHICAGO BOARD OF TRADE
(312) 435-7174

CME, CBOT SIGN AGREEMENT TO DEVELOP BUDAPEST COMMODITIES EXCHANGE

FOR IMMEDIATE RELEASE

CHICAGO, September 4, 1991—The Chicago Mercantile Exchange (CME) and Chicago Board of Trade (CBOT) today announced jointly the signing of an agreement with the U.S. government to launch a three-phase project aimed at developing the Budapest (Hungary) Commodities Exchange (BCE) into a successful domestic and regional commodity market.

As outlined in a letter of agreement among the two Chicago exchanges and the U.S. State Department, a $420,000 grant from the department's Trade and Development Program (TDP) will fund the project's first phase, which entails preparation of a feasibility study "to introduce the BCE to U.S. equipment, services and technology so that U.S. companies are well-positioned" to participate in the venture's later phases.

"Economic freedom and political freedom go hand in hand," said CME Chairman John F. Sandner. He added, "The events that continue to unfold in the Soviet Union underscore this fundamental principle and the special significance of this project. This funding testifies to our commitment to assist these economies. We hope and expect that this project is the first of many as Chicago, the risk management capital of the world, exports its unique trading technology and expertise around the globe."

William F. O'Connor, chairman of the CBOT, said, "Budapest is well-positioned to develop important regional commodity and financial markets that can become the cornerstone of Hungary's free-market economy. We are pleased that the U.S. Trade and Development Program has agreed to help us fund this worthwhile project. By enabling us to expand our current efforts abroad, this grant will ultimately create new opportunities for CBOT members as well as the Hungarian citizenry."

The Chicago-Budapest initiative has it roots in an October 1990 visit by leaders of the two Chicago exchanges to the BCE. The Chicagoans embarked on the trip shortly after the two exchanges had formed a Common Goals committee in mid-September 1990. While in Hungary, Chicago and Budapest exchange officials signed a memorandum of understanding, whereby the Chicago exchanges would provide technical assistance to the

- More -

Chicago Board of Trade

CHICAGO MERCANTILE EXCHANGE®

nascent Hungarian exchange. Subsequently, CBOT and CME leaders also visited a newly formed commodities exchange in Moscow.

The BCE, officially named *Arutozsde Kft* of the Republic of Hungary, was founded in September 1989. At present, the BCE has two divisions, one of which trades grain contracts and another that trades livestock contracts.

The target date for completion of phase I of the CME-CBOT project is April 30, 1992.

91-92

# # #

COMMODITY FUTURES TRADING COMMISSION
2033 K Street, N.W., Washington, D.C. 20581
(202) 254-6387
(202) 254-3061 Facsimile

To: Dave Demarest
~~Tony~~ Snow
From: Bobbie Kilberg
Wendy Gramm has the attached suggestions for the Chicago Mercantile Exchange speech,
Bobbie

DATE: 12/3

TO: Bobbie Kilberg

OFFICE/DIVISION: Public Liaison

FROM: Wendy Gramm

OFFICE/DIVISION:

BRIEF DESCRIPTION OF ITEM BEING SENT:
Future Market Bullets
As Discussed

NUMBER OF PAGES (INCLUDE COVER SHEET): 5

IF YOU HAVE ANY QUESTIONS, OR DID NOT RECEIVE ALL MATERIAL, PLEASE CALL:

NAME: Allison Adams

TELEPHONE: (202) 254-6970

Wendy Gram

Dec 10 Pres. trip to Chicago CME

Futures Market Bullets

o America must have had a pretty good idea when we invented modern futures trading, because the whole world copied us.

o By the same token, the CME deserves special credit as the birthplace of financial futures trading, which has revolutionized financial planning and management around the world.

o Futures markets are the most innovative part of the financial sector today.

o That innovative spirit, which today is felt all around the world, got its start right here in Chicago.

o In a world of lightning-fast change, futures markets can be business and industry's best method of coping with changing economic circumstances.

o By enabling business and industry to cushion themselves against day-to-day economic bumps and shocks, futures markets help lay the foundation for long-term economic growth and development.

o Farmers, feedlots and grain elevators have long known the value of futures in allowing them to hedge themselves against the risks that are always present in agricultural production. The CME has played an important role in developing contracts to meet agriculture's needs.

o Financial institutions have now realized what farmers learned long ago, that futures and options are valuable tools to help manage risk.

o Futures markets also play another vital economic role. They provide an arena for price discovery -- a place where the forces of free and open competition can tell us the true value of goods and assets.

o Others around the world are learning from our example. New exchanges are popping up all over. Every country that is striving to be a world financial leader is developing financial futures markets

o Emerging democracies that are struggling to develop market economies are looking to our futures markets. Even before they develop the free market foundations that will support futures markets of their own, they look to America's futures markets for price discovery purposes -- for example, to help their farmers determine which crop will bring them the best return

o This is America at its best -- innovative, inventive, the high tech developers of new products and new processes and then the teachers to the world. America has spawned many a new industry -- and we are spawning look-alike futures markets around the globe. Yes, it means we have to work even harder to keep our competitive edge, but this is also the peaceful way for countries to grow their way into economic success and prosperity.

This country has a recipe for an economic system that other countries are anxious to learn from.

America's futures markets are the laboratories where new contracts and new strategies are developed to keep pace with an ever-changing universe of economic risks.

America's futures exchanges are the universities where the emerging democracies can learn how free and open markets work.

o I want to commend the CME, in particular, for its pioneering role in the development of financial futures markets and for its competitive and innovative spirit.

Wendy Gramm

Dec 10 trip (these prob. aren't presidential enough)

CFTC-Related Bullets

o I also want to commend the CME for their role in helping to put to rest the long-running jurisdictional squabble between the SEC and the CFTC. Secretary Brady tells me that the CME was very supportive of the Title III amendments which he and Chairman Gramm backed and which the Senate passed last spring. I hope that, when Congress reconvenes, we can put CFTC reauthorization behind us so the exchanges can get back to doing what they do best -- innovating for world of the future.

o Keeping pace with the future sometimes seems to be a particular challenge for government agencies. In that respect, I'd like to commend the CFTC. Since the CFTC opened its doors in 1975, we have witnessed incredible growth in the futures industry. Through cost-effective regulation -- cutting out unnecessary rules, searching out greater efficiencies, and concentrating resources where they are most needed -- the CFTC has kept up with mushrooming responsibilities with only very modest increases in its own budget.

o I understand the CFTC is continuing its campaign for regulatory efficiency by undertaking a self-study -- Excellence 2000 -- to review agency regulations, structure and procedures with the goal of making the CFTC a model of excellence in government.

o As the CFTC conducts its review, and as you comment on their regulatory proposals, I hope everybody will remember that excellence is not a synonym for complexity. Regulations should not be written as if the drafters were on a piecework rate, getting paid by the word.

o It is not a sin to write rules that can be comprehended without benefit of a PhD in economics. Complex, convoluted regulations are harder for businesses to comply with and harder for regulators to enforce. They can strangle initiative and increase the costs of doing business. I held this view as the Chairman of the Task Force on Regulatory Relief. I hold it as President. And I expect my appointees abide by this philosophy in carrying out their statutory duties.

o The CFTC, with its Excellence 2000 proposal, is carrying out these principles -- with the result that the futures industry should be able to move forward toward the next century with less red tape and a more reasonable and understandable regulatory system.

THE MERC AT WORK

A GUIDE TO THE CHICAGO MERCANTILE EXCHANGE

The Who, What, When, Where, Why and How of Futures and the Chicago Mercantile Exchange

From the Visitor's Gallery, the trading floor must seem noisy and frantic. Guess what: it is. Now you know half the truth. The other half is how important and interesting this market is.

The Chicago Mercantile Exchange would like you to see the whole picture—a lively, entertaining and informative picture. This is our way of introducing and explaining the futures market to you.

We want you to know what futures and options are, who trades them and why, and what takes place on the trading floor. It's an exciting place and we at the CME are proud to tell you a little about what goes on in the world of futures. ◆

What's what?

Who's who?

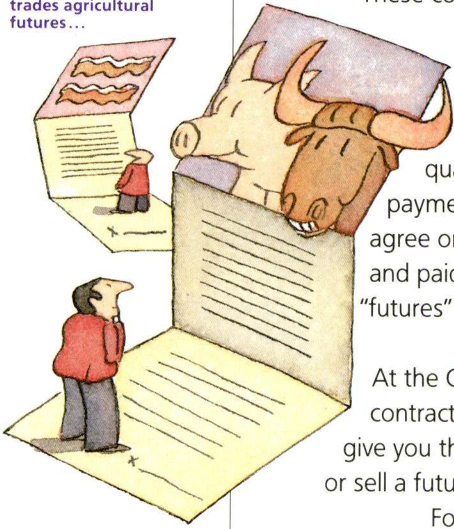
Where, when, and why?

What's the meaning of this?

What are futures and options?

Futures are contracts. If you're a lawyer, athlete or bridge player, you know about contracts. But these are a little different.

The CME trades agricultural futures...



These contracts are legally binding agreements, made on the trading floor, to buy or sell something in the future. That "something" could be livestock, a foreign currency, or some other item for trade. Each contract specifies the quantity of the item and the time of delivery or payment. The buyer and the seller of a futures contract agree on a price today for a product to be delivered and paid for in the future. That is why it is called a "futures" contract.

Now, let's see if we can complicate things. At the CME you can also trade options on futures contracts. Options are also contracts, ones which give you the right—but not the obligation—to buy or sell a futures contract at a particular price.

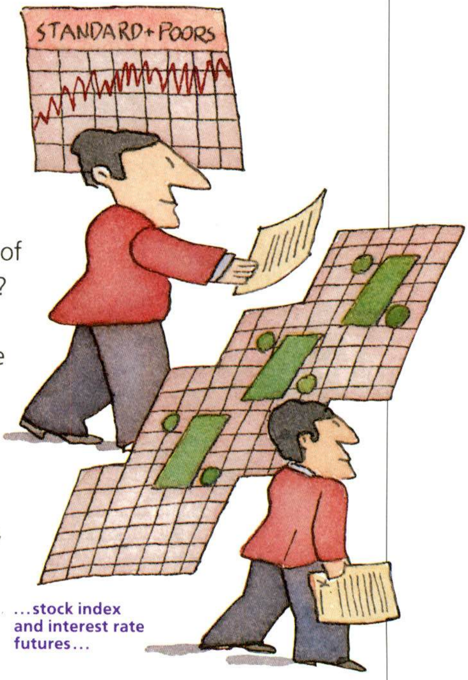
For instance, if you didn't want to commit yourself to buying a futures contract, you could buy an option on the futures contract. You would then have the right to exercise the option and buy the futures contract at a specific price if it seemed profitable.

On the other hand, you wouldn't have to exercise the option if it were unprofitable. You could also sell your option to someone else if it were more valuable than when you bought it. Options are ideal for investors who are extremely clever, extremely cautious, or extremely indecisive.◆

Futures on what?

Just about anything. If you can say it in polite company, there is probably a market for it. Dried cocoons and crossbred wool are traded commodities. And remember all the food groups on page 66 of your 7th grade Health textbook? The CME has traded futures on something in every one of those groups.

The CME currently trades futures (and options, in many cases) on agricultural commodities, foreign currencies, interest rates and stock market indices.



...stock index and interest rate futures...

Agricultural commodities: These are mankind's oldest and most basic commodities. The forces of nature as well as things such as people's eating habits, affect the supply and demand—and thus the prices of these products.

Live Cattle (futures and options)

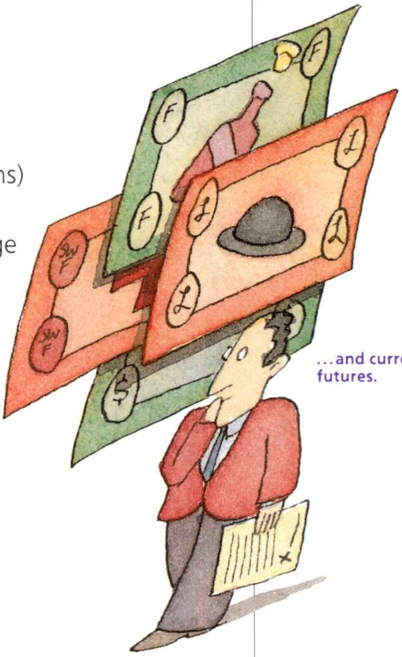
Feeder Cattle (futures and options)

Live Hogs (futures and options)

Pork Bellies (futures and options)

Broiler Chickens (futures and options)*

Random-Length Lumber (futures and options)



...and currency futures.

Foreign currencies: As exchange rates fluctuate in an uncertain world economy, international investors use these futures for both protection and profit.

British pound (futures and options)

Canadian dollar (futures and options)

Japanese yen (futures and options)

Swiss franc (futures and options)

German mark (futures and options)

Australian dollar (futures and options)

Interest rates: A change in interest rates can affect the economy. These futures can limit the risk from such a change or be the means to profit from it.

Eurodollars (futures and options)

Treasury bills (futures and options)

Dollar/Pound DIFF

Dollar/Mark DIFF

Dollar/Yen DIFF

LIBOR

Stock indices: Will the stock market go up or down? Each future represents the equivalent of a broad stock portfolio in major corporations.

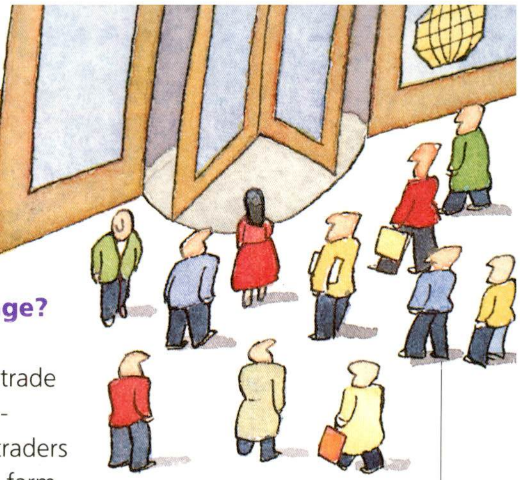
S&P 500 Index (futures and options)

Nikkei 225 Index (futures and options)

On occasion, absent-minded futures investors might have found 40,000 pounds of live cattle being delivered unexpectedly. Fortunately, this doesn't have to happen. Just because you bought the futures contract doesn't necessarily mean you'll have to take delivery of the commodity. You'll see how the obligation to deliver or receive a commodity can be offset or cancelled out a little farther along in this brochure.

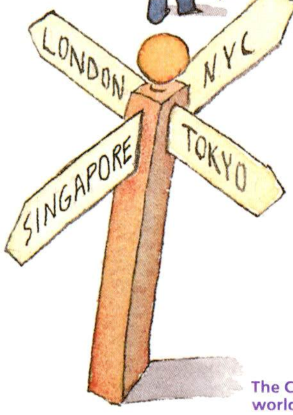
The cattle did make surprisingly good pets, though. ◆

*Pending CFTC approval



What is a futures exchange?

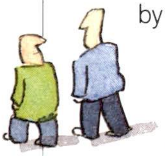
It's a place where buyers and sellers meet to trade futures. If there were no exchanges like the CME, the traders would have to trudge from farm to farm to get the best price on pork bellies. A farmer would have to contend with several hundred Chicagoans wanting to use his washroom… Exchanges can be very useful.



The CME is a world marketplace.

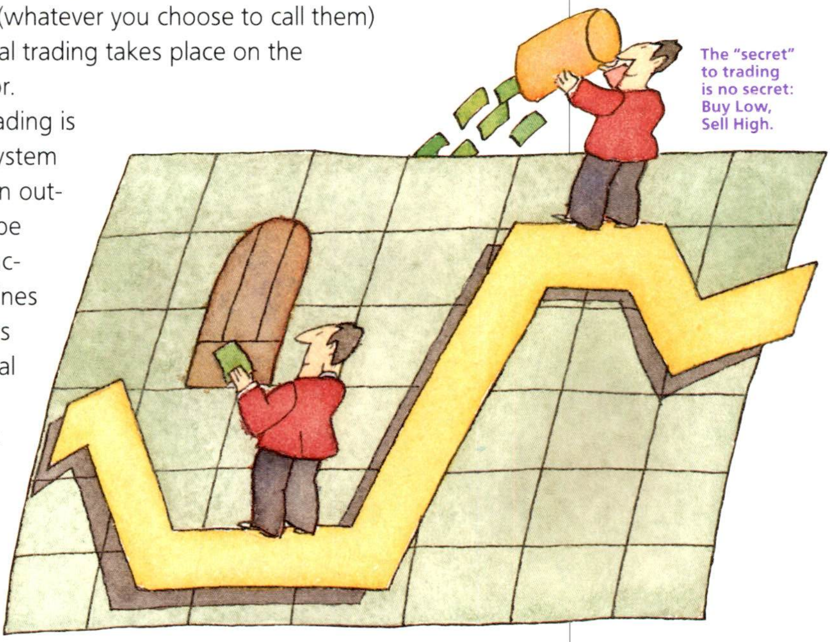
Of course, a futures exchange like the CME is much more than just a building. There's a staff of people who work for the CME, some on the trading floor and others in the offices of the Exchange in Chicago, New York, Washington, London and Tokyo, and at the CME's Far East trading partner, the Singapore International Monetary Exchange. The CME works through these individuals to promote the use of futures and options by investors, supply information about the markets and contracts, research and develop new contracts for trading, and handle all the other countless operational details that are part of the world of futures trading.

An exchange is also a corporation. It has to obey rules and guidelines, and it's regulated by an agency of the federal government—the Commodity Futures Trading Commission. Futures exchanges also have rules that members and other investors must follow. These rules and procedures are enforced by the exchanges.◆



What exactly is trading, and where does it happen?

Trading at the Exchange is nothing more than the buying and selling of futures or options contracts. And it's the pits—or should we say, it's in the pits. Those are the arenas, bullpens, rings (whatever you choose to call them) where the actual trading takes place on the Exchange's floor.



The "secret" to trading is no secret: Buy Low, Sell High.

The trading is done using a system known as "open outcry." This is a type of free-form auction that combines elements of primal scream, aerobic dancing, and the Battle of Hastings. (We'll talk more about open outcry on page 14.)

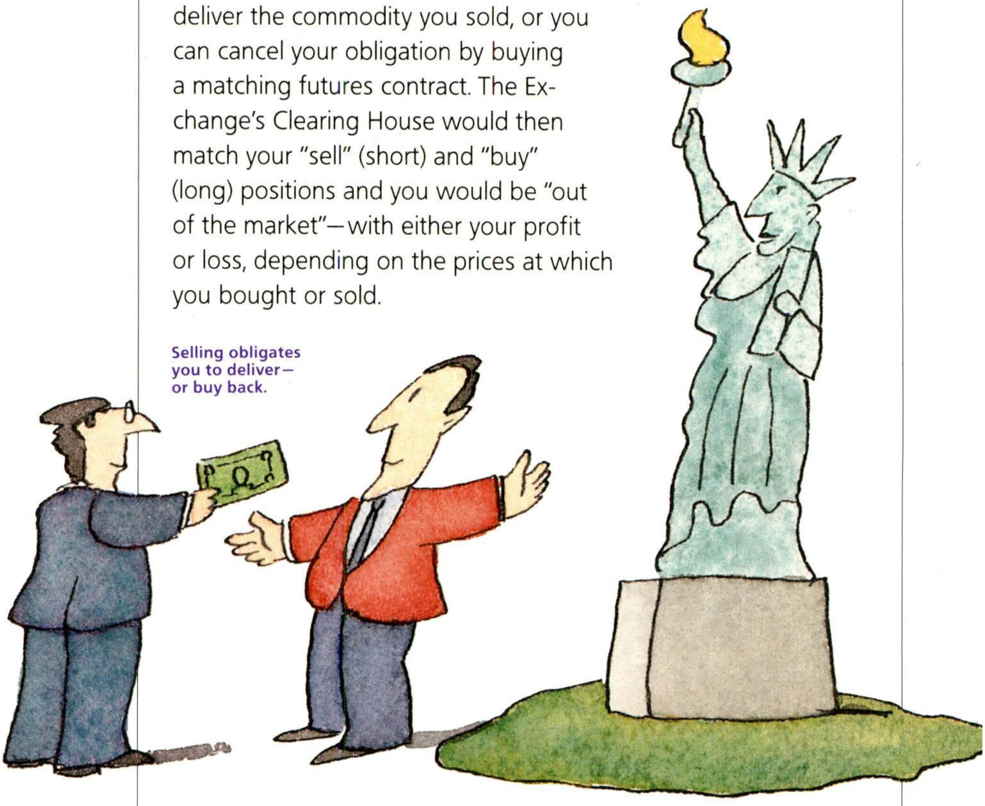
Now, what is the secret to trading? If you buy something at one price and sell it at a higher price, you make money. If you sell it at a lower price than what you paid for it, you lose money. You now know as much as most MBAs.

There's one more wrinkle to trading—you can buy and sell in whatever order you want. You can buy, then sell—or sell, then buy. Whichever way you choose, the idea is that the selling price should be better than the buying price.◆

How can you sell what you don't own?

You might almost say that "He who sells what isn't his'n, must make good or go to prison." In trading, when you sell a futures contract, you are obliged to deliver what you sold.

You can fill your obligation and deliver the commodity you sold, or you can cancel your obligation by buying a matching futures contract. The Exchange's Clearing House would then match your "sell" (short) and "buy" (long) positions and you would be "out of the market"—with either your profit or loss, depending on the prices at which you bought or sold.



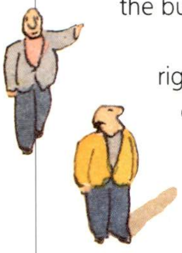
Selling obligates you to deliver—or buy back.

From the time you sold that contract until you buy it back, you'll want the price to drop. Let's assume you've sold a cattle future. You might try converting everyone you know to vegetarianism or Hinduism. And why? So you can buy back the future for a lower price than you sold it.

"Sell high, buy back low" can be just as profitable as "buy low, sell high." ◆

Who's in charge here?

The members are, those folks waving and shouting on the trading floor. They elect a Board of Governors who handle the business of running the Exchange.



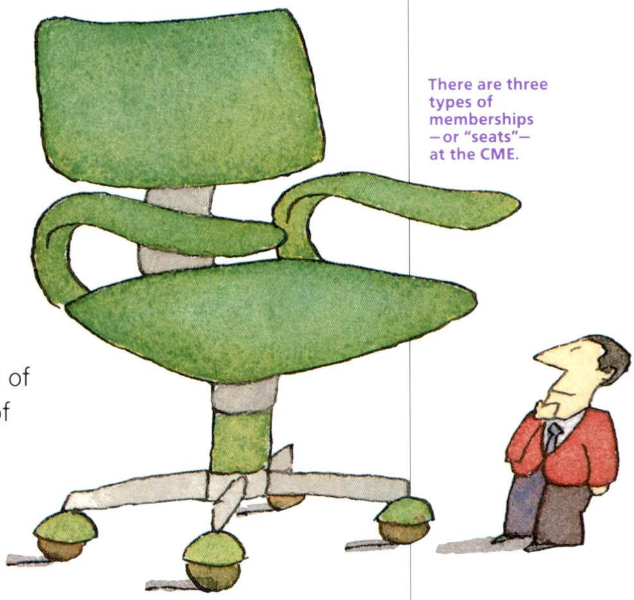
A membership—or seat—at the CME gives you the right to trade on the floor of the Exchange. Members also can vote at meetings and in various Exchange elections, and become active in the Exchange through participation in CME committees.

To qualify for membership, an individual must be investigated by the CME and tested for his knowledge of trading. Should he pass, and be able to afford to trade, only then will he be eligible for membership.

There are about 2,700 Exchange memberships. These fall into three groups. Full CME membership entitles you to trade any of the contracts listed on the Exchange. Membership in the International Monetary Market (IMM) division allows you to trade currency and interest rate futures. An Index and Options Market (IOM) division membership gives you the right to trade stock index futures, Random Length Lumber and all options.

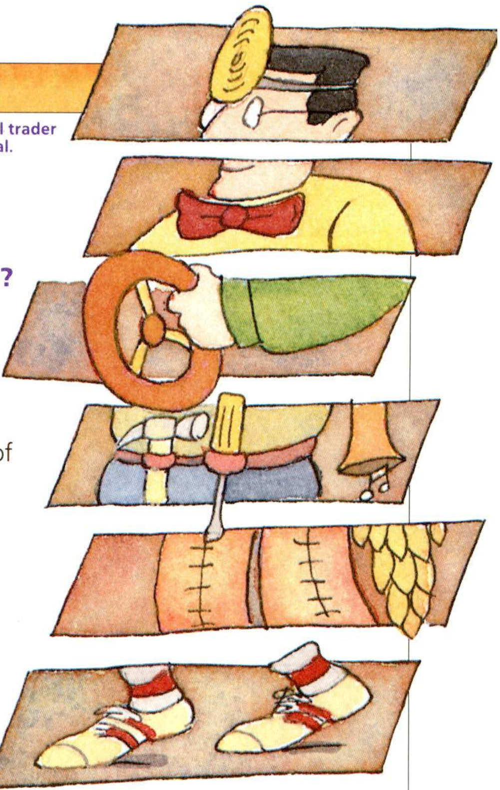
The number of memberships is set by the CME. The price for each membership is arrived at by means of a bid-offer system just like in the pits (minus the open outcry shouting) handled by the CME's Memberships and Registration Department. Members wishing to sell a seat submit an offer form with the price they're asking for the seat; prospective buyers tender their bids independently.

Seat prices vary due to a variety of factors such as the state of the economy, and activity in the markets. The highest price for a full CME seat was $550,000 in 1989. The most paid for an IMM seat was $475,000, also in 1989. The IOM seat price has topped $175,000. Current prices—including bid, ask and last sale amounts—are posted on a board located above the floor on the catwalk at the east end of the trading floor, to the right of the gallery.



There are three types of memberships —or "seats"— at the CME.

Approximately 1,200 of the members lease their seats to other people. If you're leasing a seat from someone, you have the trading rights that go with that seat. The leasing terms are a private arrangement between the member and the prospective trader. A negotiated rent is the general procedure.◆



The typical trader isn't typical.

What are the traders really like?

Are they all fabulously rich? Of course not. In fact, they're not "all" any one thing.

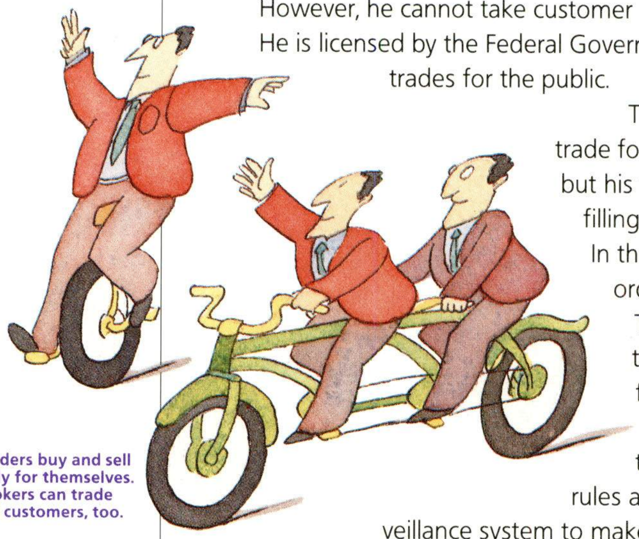
Traders on the floor of the CME have only one thing in common: they wouldn't settle for 9-to-5 conformity. In every other way, they are variety personified. For many, commodity trading is their second career. Some were lawyers, cab drivers, trombonists, construction workers, business men and women, tribal chieftains, and one was even in advertising. Quite a few began as runners on the floor and worked until they were advanced by their companies or were able to purchase or lease a seat.

Traders generally range in age from 25–75 years old. The "life span" of a trader on the floor may be only a few minutes, or 50 years—depending on how right he is, how often, and if he likes the work. ◆

What is the difference between a trader and a broker?

A trader is someone buying and selling futures contracts solely for himself. He might be delighted to give you market advice if you met him at a party or in a crowded elevator. However, he cannot take customer orders. A broker can. He is licensed by the Federal Government to execute trades for the public.

The broker may also trade for his private account, but his first responsibility is filling the customers' orders. In the course of trading, all orders are treated equally. There is no differentiation between an order for a customer and one for a trader. However, the CME has very strict rules and a computerized surveillance system to make certain that brokers do not trade for themselves ahead of customer orders. If you have given your broker an order to buy five Treasury Bill futures, and he also wants to buy five for a position of his own, he has an explicit obligation to see that your order is filled first. ◆



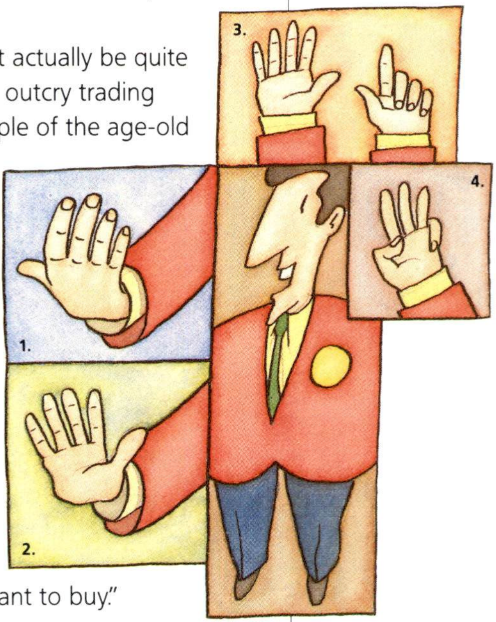
Traders buy and sell only for themselves. Brokers can trade for customers, too.

But if one speaks up and can't be heard, has one really spoken?

Certainly. Here's why: Once, the scion of a great cattle family was asked that age old question, "How did it all begin?"

"Like this," he said, scratching his nose. Since no one really got it, he was asked to elaborate. Then he recounted—probably only half in jest—how on a day long ago, his father, having fallen victim the previous evening to a particularly bloodthirsty pack of mosquitos, had ventured a trifle too close to the cattle pits. "Well," he said, "wouldn't you know that Dad began to scratch his nose quite vigorously and before long we had bought ourselves several dozen head of cattle. The rest," he added, "is history."

Hand signals are one way bids and offers are communicated.



Buying futures contracts may not actually be quite that easy, but bear in mind that this open outcry trading system just happens to be a classic example of the age-old auction market at work. But let's face it, with every trader acting as his or her own auctioneer, there are times when one simply cannot be heard. Happily, since all eyes are focused on the pits anyway, bids and offers can also be conveyed with hand signals. By the way, there is one rule of thumb: the more energetic, the better.

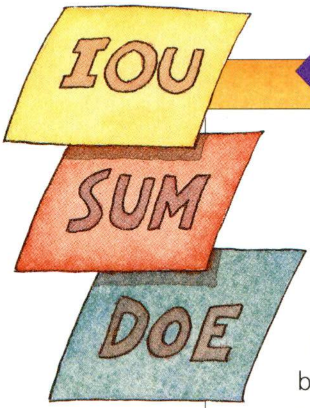
Here are the four basic hand signals along with their meanings:

1. Palm of hand facing your body—"I want to buy."
2. Palm of hand facing away from your body—"I want to sell."
3. Hands away from your body, arms upstretched, fingers moving vigorously—"Here's my price (buy or sell)." [Prices one through five are quoted with vertically-extended fingers. Six through nine are quoted with the fingers extended horizontally. Zero is a closed fist. Numbers above 20 are indicated by rapid sequential hand signals using fingers and closed fist.]
4. Signalling hand held near your head, hands working same as when indicating price—"This is how many contracts I wish to buy or sell."◆

How do the traders know who's who in the pits?

Many traders stand in a favorite spot all the time. And seeing many of the same faces every day in the pits, traders and brokers naturally recognize each other in many cases. But in the busy action of trading, you need a means of identification simpler than names.

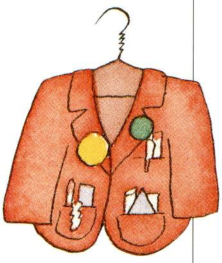
The Merc at Work.

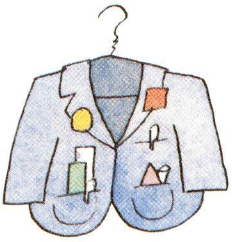


Badges help traders avoid an "identity crisis" on the floor.

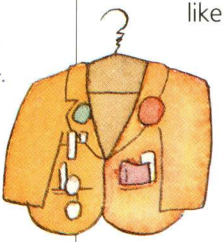
Members all have badges which show who they are, and what they can trade. There are three kinds of memberships. CME members have gold badges, IMM badges are green, and IOM members sport blue badges. These are attached to their trading jackets, and—most important—bear a set of initials. On the trading floor these initials are their "names" and when two traders complete a transaction, each notes the other's initials on their trading cards as a way of telling exactly who did the trade.

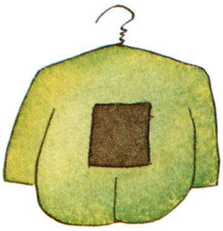
Each member can select the particular initials they want on their badge—most have two to four letters. You can't pick the same sequence of letters that someone else already has. Since no other member will have your identical sequence of letters representing him, this system eliminates potential confusion over who the two parties in any trade are.◆





Jackets bring more than just color to the trading floor.





Why is everyone wearing jackets?

There are various reasons for this. The truth is, long ago, before there was a Mercantile Exchange and when there scarcely was a Chicago, traders would wear top hats and frock coats at work. It was a simpler time, obviously before perspiration was invented. The traders had names like Palmerston Philpotts, Jr., and Ambrose Wappleshire III. They'd approach each other to discuss pork bellies and their daughters' debutante balls.

Time passed. Queen Victoria died, the markets grew larger and more hectic, and the dress code changed. Today you wouldn't be allowed to wear a top hat on the trading floor. A frock coat would still be permitted, but how long would it survive a crowded trading pit? But in honor of the fond memory and the stately pomp of Palmerston Philpotts, Jr., traders are still required to wear jackets.

Logically, trading jackets save wear and tear on your wardrobe. But more important, the jackets are part of the identification system on the floor. They fall into two main groups: those for members, and those for employees of the members and the CME. The red jackets worn by members are supplied by the Exchange. There are also member firms who have their own distinctive jackets. Some traders have designed a unique pattern or look for their jackets to increase their visibility within the trading pits.

The light blue jackets designate pit observers. These CME employees are stationed in the pits or at the equipment on the catwalk overlooking the floor. Their jobs include reporting and processing information, such as prices.

The bright green jackets with a black patch on the back indicate the out-trade clerks who represent member firms in resolving discrepancies in trades.

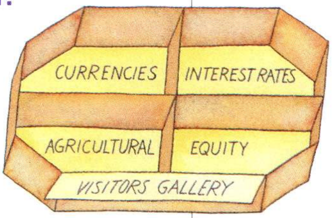
Gold coats designate the employees of the various firms. These workers aren't members of the Exchange and don't wear badges with their initials. They perform a number of tasks, in particular: 1) staffing the phone work stations around the pits (phone clerks); 2) communicating trading information from the pits to the phones by means of hand signals (arbitrage clerks); 3) carrying orders and other information to and from members (runners); and 4) holding orders for the traders (deck holders). ◆

How many people work on the trading floor?

The main CME trading floor can accommodate up to 4,300 people at one time. But the exact number of people working on the floor varies every day, even from hour to hour. Someone may be in a trading pit for a few hours, then leave for a break, and return for the close of trading in that contract. When markets are extremely active there is less tendency for traders to stay away from the action for too long, so the floor may be a bit more crowded at those times.

Usually there are 3,000–4,000 people on the floor of the CME. This includes brokers, traders, runners, other employees of member firms and pit observers and supervisors. ◆

How is the trading floor organized?



There are four sections of the CME trading floor. As you look on from the Visitors Gallery, you are facing due north. To your left, closest to the Gallery, is the agricultural commodities complex. This is the oldest group of commodities at the CME.

Moving clockwise around the floor from the agricultural quadrant you next find the currency group, located in the northwest corner of the floor.

In the northeast section of the floor, next to the currencies, are the interest rate futures and options.

The fourth major section of the floor is the trading area for equity-related contracts, based on the stock market. In front of you, as you stand in the east end of the gallery, is the S&P 500 futures pit—the biggest at the CME.

The more than 1,200 work stations on the trading floor can each handle 128 incoming phone lines.

Dividing the floor into these sections are rows of work stations. Here the orders from individual investors as well as large commercial users are received by phone from around the world, to be carried into the trading pits for execution. ◆

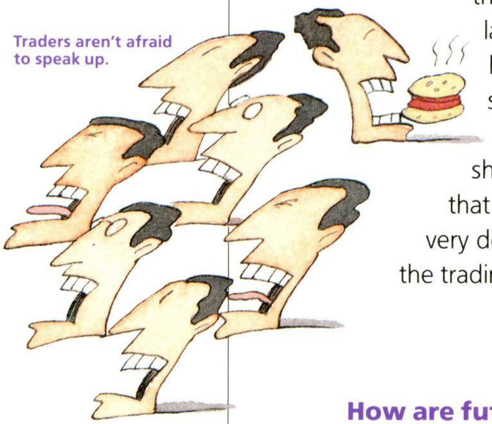
Why must traders shout?

Shouting? Those people are practicing to be opera stars. Really, though, if you've ever been to an auction, with the auctioneer calling out prices as bidders indicate their willingness to buy, you've seen an open outcry system at work. But at a futures exchange, there's one big difference.

Every trader in the pit is an auctioneer. Each one announces his own bids and offers, depending on whether he is buying or selling. Of course, if everyone is bidding at the same price, the seller will sell to whomever he hears first. To paraphrase an adage, in the trading pits it is better to be heard than to be seen.

There is a well-established system underlying the apparent chaos that the open outcry method creates. Only the best bid and offer are allowed to surface in the marketplace. If you as a trader are willing to pay the highest price, you announce that, and all the lower bids are silenced. The law is that you can't bid below someone's higher bid, and you can't offer above someone's lower offer.

Traders aren't afraid to speak up.



So, while everyone appears to be shouting at once and it may seem impossible that anyone could have time to listen, there is a very definite method to the madness you see on the trading floor. ◆

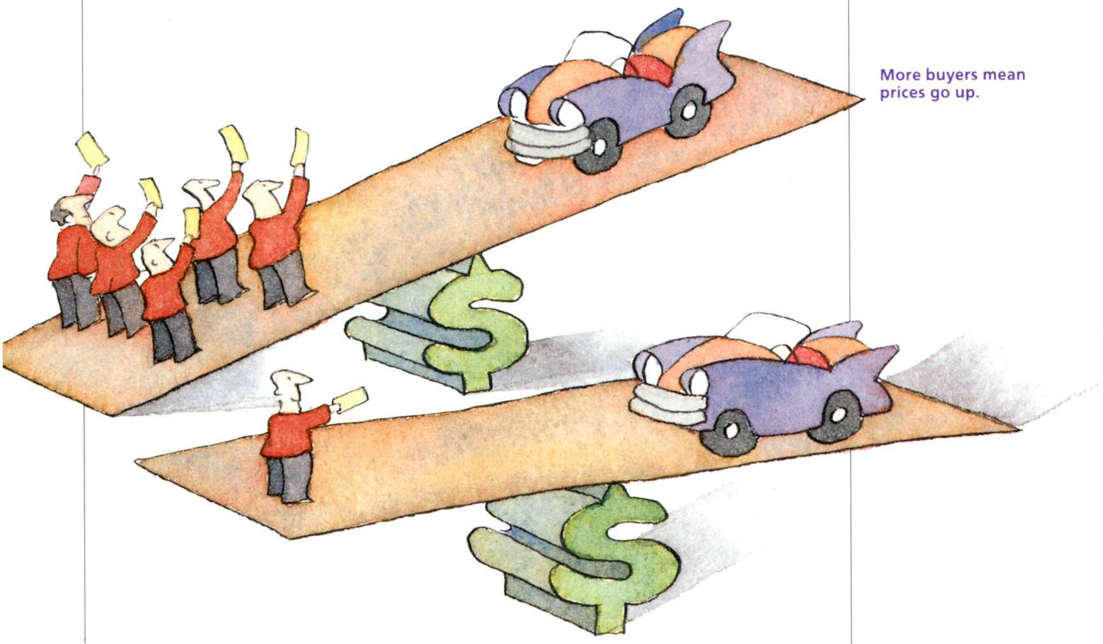
How are futures and options prices determined?

A clergyman would give credit to God. "The National Enquirer" would blame an international conspiracy. We prefer to think that futures prices are determined by buyers and sellers (in other words, supply and demand). If the buyers are more eager than the sellers, prices go up. When the opposite is true, prices go down. In a free market, prices are determined by what the seller can get from the buyer.

Here's an example of the free market at work: you're selling a car. You place an ad in a newspaper to sell your much-loved, but now outgrown car. You list the price as $5,000. Someone out there is looking for exactly your kind of car, but will only pay $4,500. Who is setting the price? Since your car is only worth what someone else will pay for it, the buyer actually establishes the price here.

If 10 people are selling the same model car that you own, and only three people want to buy, those three can exercise more influence over the auto price than the 10 sellers.

Likewise, if yours is the only car of its type and you have 15 interested buyers, you are pretty certain to get the price you want.



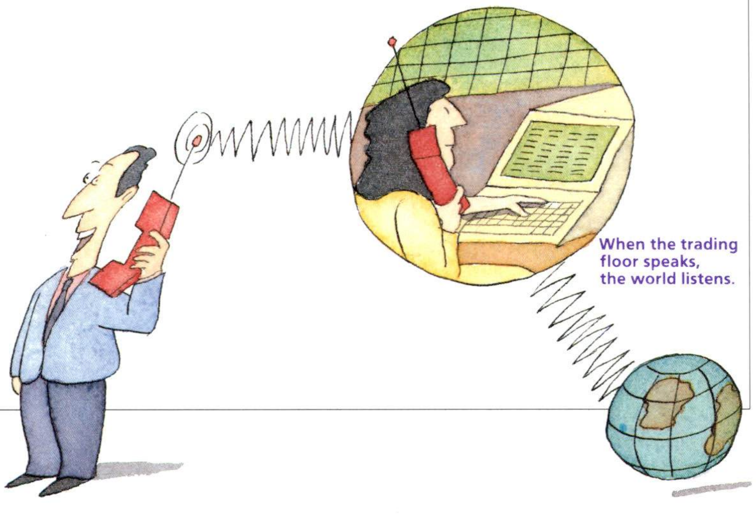
More buyers mean prices go up.

The same relationship between sellers and buyers—supply and demand—exists in futures and options markets. Prices are determined by what someone is willing to pay for a given product. ◆

How is price information spread?

In each of the trading pits are Exchange employees dressed in light blue jackets. These are trained pit observers, and each carries a walkie-talkie. When a price change occurs in the course of trading, these observers notify other staff members situated at computer terminals on the catwalk above the floor. The new price information is recorded immediately, and the system sends the new data to the quote boards.

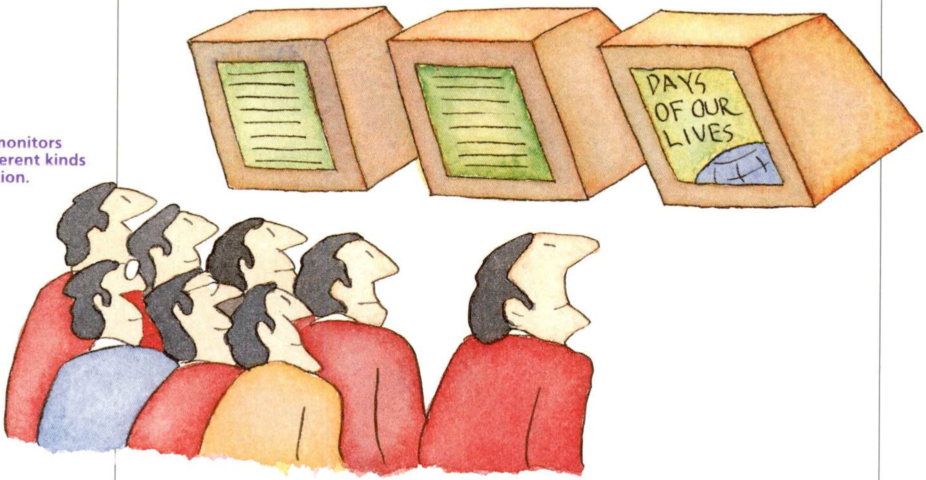
But the information doesn't stop at the boards. The same network also puts the price information out around the world via quotation systems, allowing brokers and traders to monitor the markets without ever leaving their desks. ◆



When the trading floor speaks, the world listens.

Why are there TV monitors?

If you're trading in one of the pits, there could be something happening in another pit on the floor, on the stock market or in some other world market that might affect the market you are trading in. That's when the television monitors located near the pits can help.



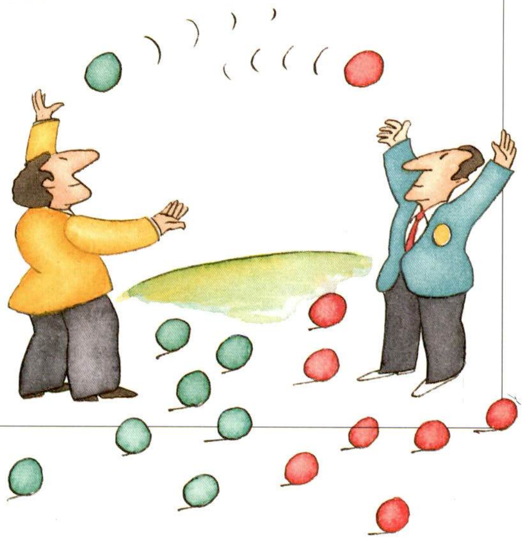
Television monitors display different kinds of information.

The TV screens carry market data from a variety of sources. These are constantly being updated, giving traders in one pit a way of staying in touch with events unfolding outside the confines of that one arena. ◆

Why even trade futures?

Investors trade futures for only one reason: to make money. They don't always succeed, but they try. Commercial interests use futures to lessen the risks in their businesses. When they do that, they are "hedging." Often these are corporations and financial institutions wanting a hedge against the risk of loss. The investors who want to make money by trading are "speculators." Hedgers are trying to avoid risk, and speculators are willing to assume it. Between themselves, they create the futures market.

Consider this example. Our hedger is none other than Otto Mobile, world renowned collector of cars. He has just struck a deal to buy all of next year's Mercedes Benz models for the rockbottom price of $175 million (preseason sale). The trouble is, he'll have to convert his $175 million to



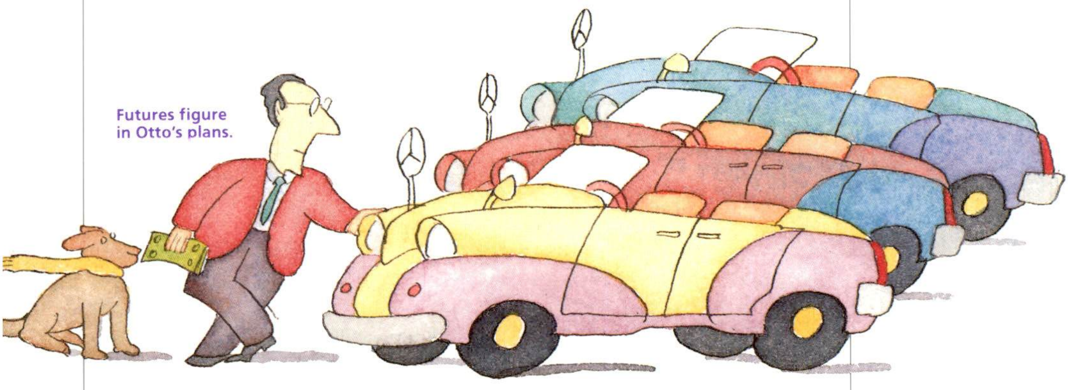
Hedgers and speculators transfer risk through trading.

Deutsche marks to buy the cars. What happens if the dollar drops in value and his $175 million won't buy the same number of marks as when he made the deal? He'll have to pay more dollars.

Otto is no fool. Besides, he loves that little Mercedes hood ornament. He doesn't want to lose money. So he buys $175 million worth of futures on Deutsche marks. Now he is "hedged," meaning that his investment plan is protected. If the dollar drops in value, he loses when he has to buy Deutsche marks to pay for the cars; but he gains in the futures market, where his Deutsche marks are worth more in comparison with the dollar. If the dollar gains, he will lose in the futures market, but his bucks will have more bang when he converts them to D-marks.

Now let's introduce the speculator: it's Anna List, the Investment Empress of Wall Street. Japanese business fears Ms. List more than Godzilla.

Anna wants to sell $175 million worth of Deutsche mark futures. Why? Is she contemplating a major schnitzel purchase on her next shopping trip, and wants to hedge? No, nothing of the sort. She is a speculator, and her technical charts indicate the Deutsche mark will fall 2.6% over the next 17 days. If she sells (goes short) now, and the value of the mark does drop,


Futures figure in Otto's plans.

she could then offset her obligation to deliver the currency by buying $175 million worth of Deutsche mark futures. Her objective was to sell the marks when their price was high, and buy when the price was low. She is speculating.

So here is the situation. Otto the hedger doesn't care what the Deutsche mark and the dollar do. He is protected in a position that he intends to maintain for a long time. Anna the speculator wants the Deutsche mark to fall and her position is short term.

Now here's where you speculate: Will Anna be right and be next week's star on "Wall Street Week" again? ◆

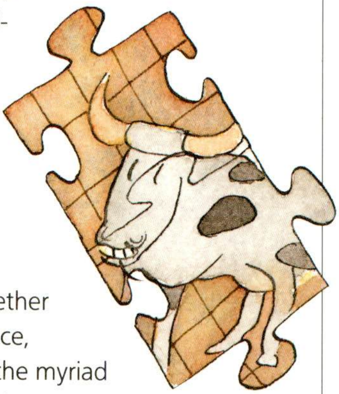
How do futures markets benefit society at large?

In quite a few ways, although some of them may not always be obvious.

When business, industry and commerce make effective use of futures markets, this helps manage the risks that are part of doing business. This can mean lower costs to you as a consumer, since a well-run business is usually able to bring its goods and services to market more efficiently, at the lowest possible cost. The fewer the risks a business has to take, the lower the price it needs to make a profit. That's really the free-enterprise system at its best, and futures markets help this process.

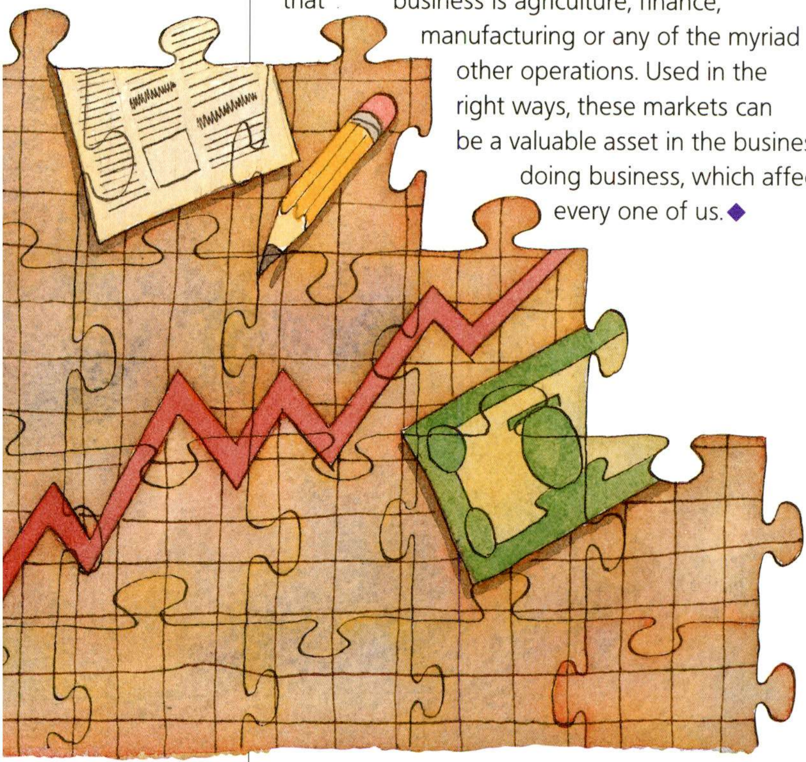
Also, firms that are managing their risks will tend to be more dependable employers. If you work for a company that deals with overseas customers or suppliers, for example, you have an interest in how well your company copes with foreign exchange rates. Hedging with futures can be a big part of this aspect of your employer's operations.

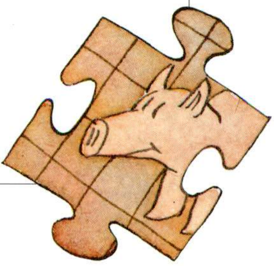
Naturally, if you work for a futures exchange or a firm that is involved in trading, futures markets are particularly important in your "society." In Chicago alone the futures industry accounts for about 20,000 jobs, with an annual payroll of approximately $250 million. The Chicago Mercantile Exchange and its member firms employ about 8,000 people, a group of wage earners that pays an estimated $24 million in income taxes.



Futures markets are part of the business scene in this country, whether that business is agriculture, finance, manufacturing or any of the myriad other operations. Used in the right ways, these markets can be a valuable asset in the business of doing business, which affects each and every one of us. ◆

Futures markets are part of our free economy and society.



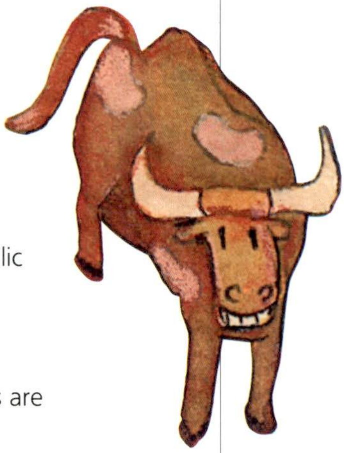


What's the meaning of this?

Like any business or activity, futures has its own "language." It's nothing mysterious; you won't need your secret decoder ring to figure it out. But it will help to have a few of the key terms at your fingertips, in case you meet someone on a bus or in an elevator and you want to strike up a conversation with just that certain touch. ◆

Bear:

someone who believes that things are getting worse, as in "a bear of a mood." In market parlance it means you think prices will decline.



Broker:

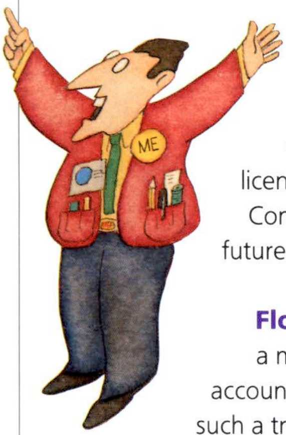
someone who executes orders for public or business customers; an "order filler."

Bull:

the opposite of a bear. You think prices are going up.

Contract:

the trading unit of futures and options. It describes everything about the commodity or financial instrument you're trading.



Floor Broker:

a member of an exchange who is paid a fee for executing orders for customers on the trading floor. All floor brokers are licensed by the Commodity Futures Trading Commission, a federal agency that oversees futures trading.

Floor Trader:

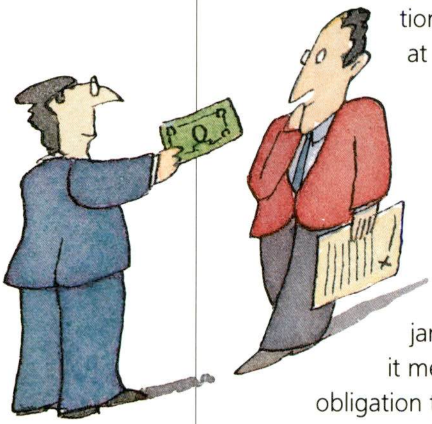
a member who generally trades for his own account, for an account he controls or who has such a trade made for him. Floor traders are sometimes referred to as "locals."

Futures Exchange:
a place where futures and options contracts change hands, between buyers and sellers.

Hedging:
when you're in business, you hedge by buying or selling a futures contract, not so much for the purpose of profiting from the trading, as much as to protect your business or limit your risk.

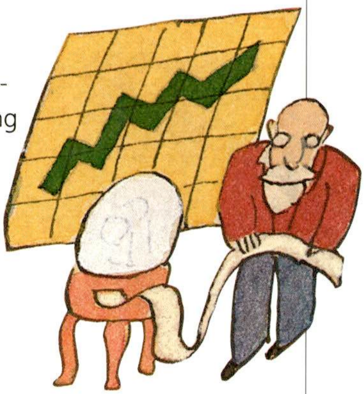
Long:
you have bought something (such as a futures contract), and still own it.

Option:
a contract which gives you the right (but not the obligation) to buy or sell something at a specified price at a predetermined time.



Position:
what you are in the market, either long (you've bought) or short (you've sold).

Short:
the opposite of long, both in futures jargon and basic English. When you're short, it means you've sold in the market and have an obligation to deliver.



Speculate:
trying to anticipate which direction prices will move and, through buying or selling, profiting from the price move in the market.

Trader:
a market maker or "scalper." A member who trades for his own account.

Trading:
buying or selling.

CHICAGO MERCANTILE EXCHANGE®
International Monetary Market
Index and Option Market

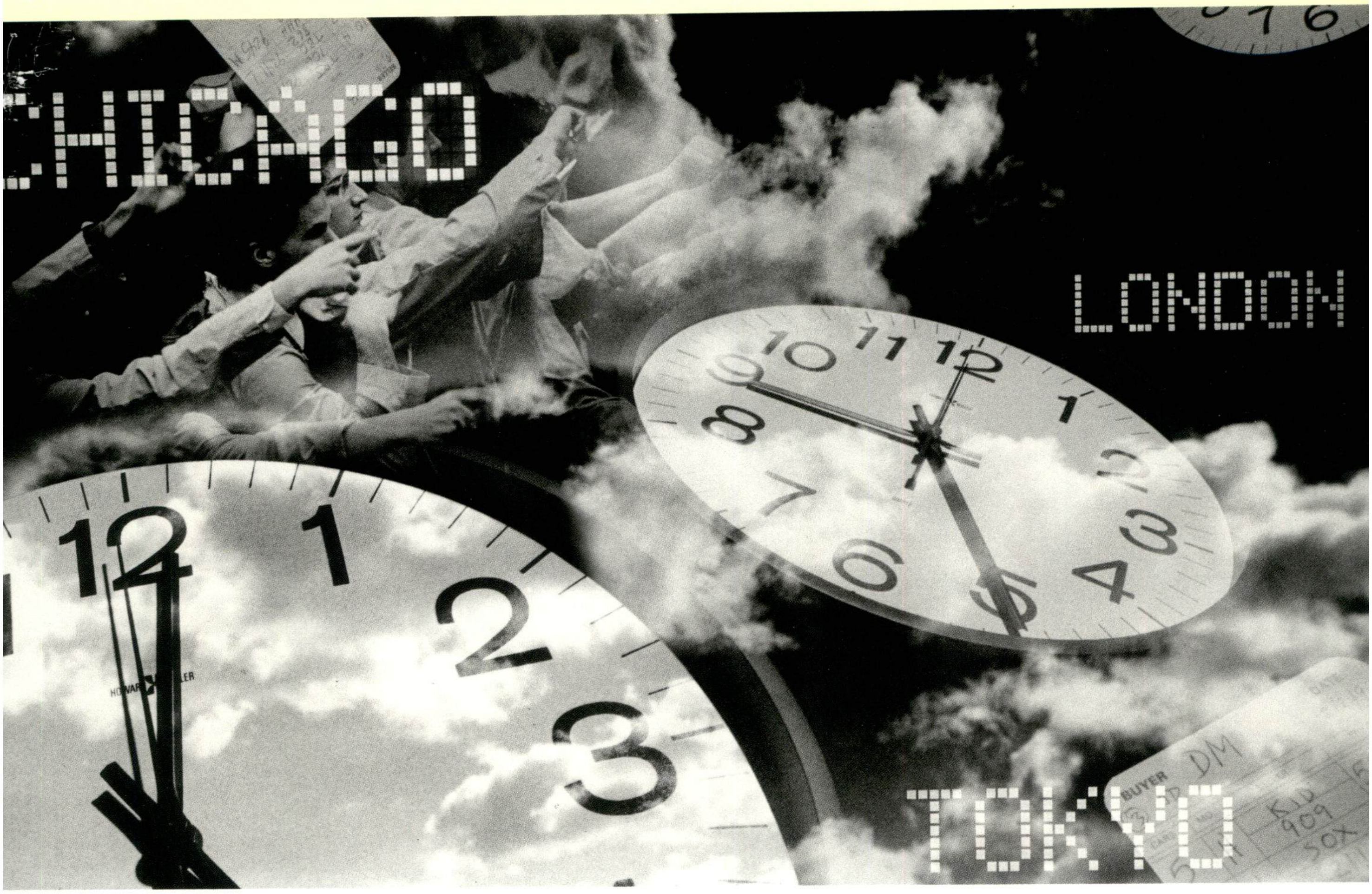
Chicago
Chicago Mercantile Exchange
30 South Wacker Drive
Chicago, Illinois 60606
312/930-1000
FAX: 312/466-4410

New York
Chicago Mercantile Exchange
67 Wall Street
New York, New York 10005
212/363-7000

London
Chicago Mercantile Exchange
27 Throgmorton Street
London, EC2N 2AN England
44 71 920-0722

Tokyo
Chicago Mercantile Exchange
3-3-1 Kasumigaseki Chiyoda-ku
Tokyo 100 Japan
813 595-2251

G35/50M/190



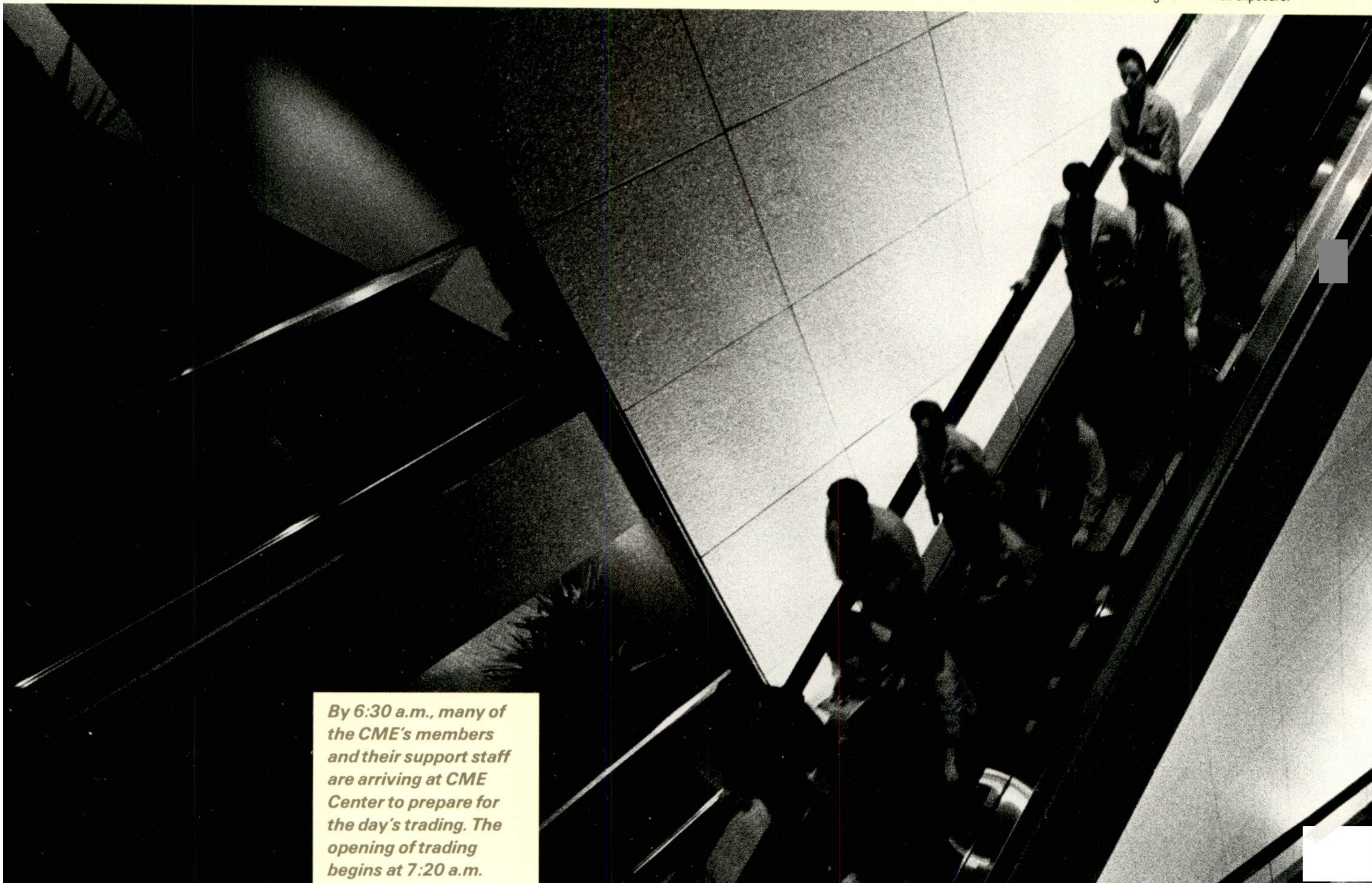
A World Marketplace

CHICAGO MERCANTILE EXCHANGE®

Scenario:

Concerns about rising U.S. inflation have surfaced. Interest rates have been inching higher for weeks. The Federal Open Market Committee, the Federal Reserve's policy-making arm, is meeting today and tomorrow to determine whether it should nudge rates still higher to quell inflation. The monthly Consumer Price Index report, due out tomorrow, will provide the first firm evidence regarding inflation since concerns surfaced a month ago. It will be followed the next day by the monthly U.S. Gross National Product report, a key economic indicator.

The next 48 hours, then, will be a critical time for a wide range of bankers, businessmen, pension fund managers and others who will turn to the futures and options markets to hedge their risk exposure.



By 6:30 a.m., many of the CME's members and their support staff are arriving at CME Center to prepare for the day's trading. The opening of trading begins at 7:20 a.m. in the currency and interest rate pits.

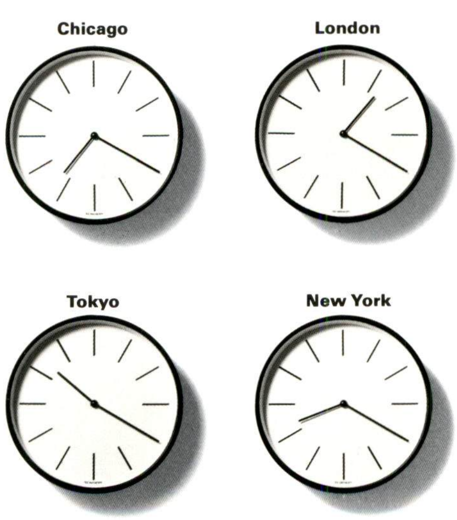


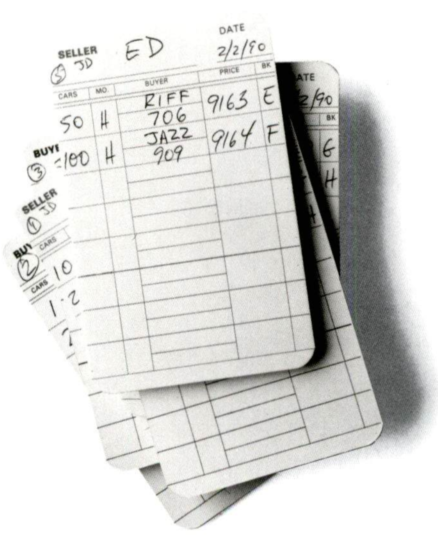
Table of Contents

The first 24 hours

I. Chicago, 2 p.m.
CME interest rate and currency markets have closed little changed as local traders remain cautious prior to the pending CPI report.

London, 8 p.m.
A British banker, concerned that higher U.S. rates will drive up his Eurodollar deposit costs, decides to hedge his rate exposure by selling Eurodollar futures at the close of the CME trading day.

Introduction



A major financial institution, anticipating a rise in the stock market, wants to purchase a diversified portfolio of stocks with cash it will receive in three months. In order to lock in current stock-market prices, the company decides to buy Standard & Poor's (S&P) 500 futures contracts.

Three months pass. With the necessary funds now available, the company is ready to sell the futures contracts and buy the underlying stocks. As stock prices have indeed risen, the purchase price for the same group of stocks in the cash market is higher than it had been three months earlier. But the value of the S&P contracts also has appreciated, so the company is able to offset the price increase in the underlying stocks by selling its futures contracts at a profit.

Hence, by using the S&P 500 stock index futures market – when it lacked the cash to buy the actual stocks – the financial institution today enjoys the same favorable stock-market position that it had hoped to attain three months earlier.

A small U.S. manufacturer agrees to ship 125,000 Deutsche marks (DM) worth of goods to a West German firm in three months time. When payment is received, the manufacturer will convert the marks into U.S. dollars. But the manufacturer is worried, for it seems that the consensus among international economic analysts is that the value of the dollar will rise sharply during the ensuing three months. To hedge against the risk of a weakened West German currency, the manufacturer *sells* one DM

Tokyo, 5 a.m.
A Japanese auto executive rises early to scan the latest news. If inflation fears take hold in the States, they could ultimately lead to a much weaker dollar. That in turn would mean he will have to charge drastically higher prices for the new model sports car he plans to sell in the U.S. next year.

New York, 3 p.m.
A U.S. corporate treasurer studies her balance sheets to see what impact higher rates will have on her bottom line.

Action in the S&P 500 futures pit. This contract is one of the most actively traded instruments in the futures industry.

futures contract (DM 125,000) for delivery in three months.

When payment is received three months later, the dollar has indeed surged and the value of the DM has fallen. The manufacturer, which now must *buy* a DM futures contract, makes a profit on the difference between the original sales price and the current purchase price. So even with a loss on the conversion of marks to dollars in the spot market, the manufacturer still realizes a net gain.

In six months his cattle will be ready for market, but a rancher does not want to guess what price he'll receive when he is ready to sell. He wishes to know today, so he can plan accordingly for tomorrow. For this reason, he sells a futures contract at a set price. Now the rancher knows exactly what he'll receive for his cattle in six months.

The financial institution, manufacturer and rancher have all hedged, that is, they have protected themselves from any potentially adverse price swings in the marketplace by establishing appropriate positions in the futures market. Had there been no exchange traders – in this case speculators – to assume the risk, the financial institution would have missed an opportunity, the manufacturer would have lost a substantial sum of money and the rancher would have been saddled with an additional burden. But because none of them could be certain as to how the vagaries of the marketplace might have influenced stock or cattle prices or currency values between today and that point in time when they wished to sell or buy, they chose not to take chances. That's where the speculators came in. Speculators were willing to assume the risk that others – banks, manufacturers, ranchers – had wished to circumvent.

The speculator tries to anticipate how any number of exogenous variables will influence the price of commodities two, three or six months down the road. If the speculator is right, there's money to be made. Of course, the reverse is also a distinct possibility. Thus, most speculators are prepared to guess wrong today in hopes of recouping tomorrow.

Commodity futures trading has played a major role in the distribution of America's bountiful food supply for more than a century. Farmers, agricultural producers, processors and exporters have long looked to futures markets as a way to control major price risk. This frees them to go ahead and tend to the business they know best.

Over recent decades, the futures industry has identified other "commodities" that fulfill a useful economic purpose for American and international business. Many futures contracts pegged to these commodities have been pioneered by the Chicago Mercantile Exchange. Futures contracts on foreign currencies, interest rates, even stock indexes, today are commonplace risk management tools.

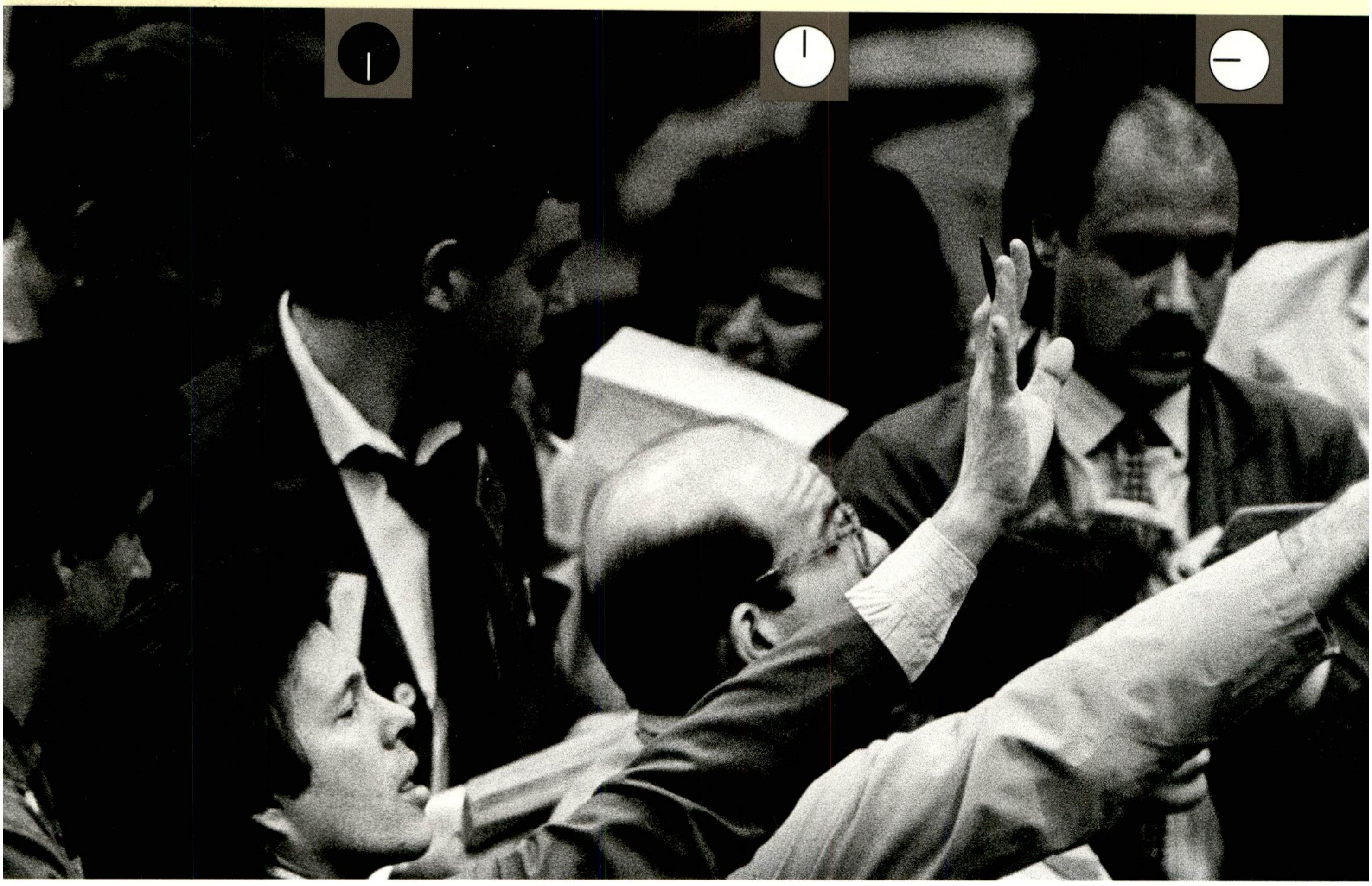
This, then, is the Chicago Mercantile Exchange, where buyers and sellers of futures and options contracts come face to face in the "pits" – small arenas which, at first glance, may appear frenetic, but where much of the world's futures business is conducted with surprising order and efficiency.

A commonplace view of futures and options trading is that it's a volatile business in which large fortunes are both made and lost quickly. True perhaps, but only for those who assume the risk. How the markets really work, how they protect against or neutralize financial risk, how they contribute to the success of the free enterprise system, that is what this brochure is about. It examines the industry as a whole and the Chicago Mercantile Exchange – its products, marketplace and history – in particular.

II. Chicago, 6 p.m.
GLOBEX, the CME's 24-hour electronic trading network, sees a busy opening as the world awaits the U.S. CPI report.

London, Midnight
The British banker's night trading desk continues hedging ED exposure selling CME ED contracts on GLOBEX.

Tokyo, 9 a.m.
The Japanese executive meets with his senior staff to decide how to respond to the possibilit



Futures Markets: Providing Investment Flexibility

• Futures Markets – What Are They?

Futures markets provide precise price information and make it possible to transfer risk from those who want to shed it (hedgers[1]) to those who are willing to accept it (speculators[2]). These important benefits – price discovery and risk transfer – extend to every societal sector in which time and place considerations create economic risk, for example: agricultural commodities, exports and imports, finance and investments, foreign exchange.

In the simplest terms, futures markets are where hedgers and speculators come together to discover the future price of a commodity or financial instrument, to protect against (or hedge) price risk and to provide a large pool of risk capital.

Price discovery is of value to both the producer or user of a product and the buyer or processor of the product. Since none of these parties welcomes the uncertainty of waiting until tomorrow to trade tomorrow's commodity, futures markets help each of them arrive today at how much a commodity should cost when it is finally ready for market.

Futures markets also afford a large measure of flexibility in managing financial risk. Markets such as those at the Chicago Mercantile Exchange (CME) give hedgers and speculators room to maneuver, to offset[3] buying positions in one contract with selling positions in another.

A futures contract[4] is different from a forward contract,[5] the kind that supports most day-to-day cash transactions. Forward contracts, everything from real-estate leases and fixed-rate loans to credit-card agreements and magazine subscriptions, are commitments between two parties to exchange a specific of a weaker U.S. dollar in the coming 12 months.

New York, 7 p.m.
The corporate treasurer decides to stay late and keep an eye on Far Eastern markets. Their actions should show the depth of U.S. inflation worries overseas and give a good indication of how American markets will open in the morning.

Through a unique network of hand signals, floor traders, brokers and runners communicate quickly and efficiently. Trades are normally executed within three minutes.

product or service at a specific price on a specific date.

Unlike futures contracts, forward contracts, which are negotiated privately, are not actively traded, nor must they necessarily be standardized. Forward contracts do carry some risk, for there is always the chance that one or the other side is negotiating in bad faith or without sufficient creditworthiness. Also subsequent events might prevent one of the parties from being able to fulfill the forward contract.

Futures contracts *are* standardized. Quantity, type, grade, approved delivery points – all are established before active trading begins, so neither side is hampered by any ambiguity which would need to be renegotiated from transaction to transaction. Only price and the identity of the buyer and seller are unknown before the actual contract[6] is made.

In the context of futures markets, options,[7] which confer the right – but not the obligation – to buy or sell a futures contract for a predetermined price during a specified period of time, are also standardized. But with options, one does not take a futures position unless the right to buy or sell is actually exercised. Also, until such time as an option expires, it may be sold and re-sold in the market.

Standardization opens futures markets to any commercial interest that wants to manage business risk by hedging. Hedgers, whether pension funds, corporations, international businesses, insurance companies, cattle producers, farmers, meat packers or food processors, all have the same goal: to gain financial protection in the conduct of prospective business and to maintain profitability.

By contrast, speculators are not seeking protection. Rather, they trade for their own profit. In so doing, they help create the liquidity[8] which is necessary so that all orders can be absorbed by the market with a minimum of price disturbance.

When liquidity exists – when there are potential buyers for every seller and potential sellers for every buyer – it should serve as the primer for volume.[9]

Conversely, without liquidity, futures markets couldn't fulfill their vital risk-transfer function. For, the larger the pool of risk capital – the greater the number of speculators – the greater the liquidity. And the greater the liquidity, the more accessible the market is to the broadest possible range of trading interests. Liquidity, then, along with standardization, allows futures contracts to be bought and sold in the open market quickly, at fair prices.

For a farmer, this means that he can sell an agricultural commodity futures contract at what he feels is a fair price, so at least the cost of purchasing and feeding his cattle is covered. When the contract matures several months later, he receives the agreed upon selling price, regardless of what has happened in the cash market.

As for corporate or institutional investors, they could benefit significantly by hedging in financial futures. For example, trading foreign currency futures can help a multinational company offset the exchange-rate risk that is always present when importing or exporting. Also, interest rate futures can help facilitate the issuance of commercial paper. And for portfolio managers and pension and endowment funds, stock index products are useful vehicles for hedging some of the risks concomitant with investing in the stock market.

• The Role of the Exchange

Like stock exchanges, futures exchanges are membership organizations. Futures exchanges do not set market prices. Nor do futures exchanges own or trade contracts any more than stock exchanges own or trade securities. They do, however, disseminate the sale prices of contracts and guarantee fulfillment of their terms. What's more, they provide the location for trading futures and options contracts, for buyers and sellers to meet and, through the auction process, to discover a price.

While a futures contract does represent a commitment[10] between a buyer and a seller

III. Chicago, Midnight
CME clearing member firms' GLOBEX traders are handling an increasing load of orders as Far Eastern markets begin closing.

London, 6 a.m.
The British banker rises early to prepare for what he expects will be a busy day. He'll have to react quickly to any surprises in the CPI report.

Tokyo, 3 p.m.
Japanese markets have had a hectic session as concerns about U.S. rates and the dollar permeate trading. The Japanese

All orders are given equal access to futures markets by the process of open outcry, or the continuous auction system of trading. Open outcry fosters an efficient market environment by allowing full and open competition among traders.

to conduct a cash transaction for a fixed quantity of a specific commodity, at a set price, for delivery on a predetermined future date, buyer and seller don't actually deal directly with each other. They may face each other, but the actual financial transaction is conducted by a third party, the exchange's Clearing House.[11]

The Clearing House—which deals only with its clearing member[12] firms—settles all transactions at the end of each day's trading. By interposing itself between the two transacting parties, it guarantees the contractual obligations of the transaction. It allows each party to offset the transaction without having to reach a new agreement with the same party.

The Chicago Mercantile Exchange is a not-for-profit corporation consisting of approximately 2,500 members. It provides a location for trading futures and options on futures. It establishes and enforces trading rules, collects and disseminates information about its markets and provides the clearing mechanism for trades executed on its floor.

The Exchange comprises three divisions: the Chicago Mercantile Exchange, on which are traded agricultural futures contracts; the International Monetary Market (IMM) division, established in 1972 for the trading of currencies and gold, and subsequently, interest rate futures; and the Index and Option Market (IOM) division, founded in 1982 for the trading of stock index futures and options on futures.

All CME members are approved by the Exchange's Board of Governors. Memberships are purchased from existing members at prevailing market prices. Bids to buy and offers to sell memberships are posted by the Exchange.

• Floor Traders and Floor Brokers

The membership of the CME consists of independent traders as well as representatives of major brokerage firms, banks and investment houses. Also included are firms that execute trades for others. These entities are known as Futures Commission Merchants,[13] or FCMs.

Some members trade on behalf of customers. These members must register as licensed Floor Brokers with the Commodity Futures Trading Commission[14] (CFTC), the federal agency that regulates the futures industry in the United States.

No member can conduct business on the floor of the Exchange unless qualified by one of the Exchange's clearing member firms. Functioning as guarantor, the clearing member certifies performance to the Clearing House for every trade made by each member that the clearing member qualifies to trade.

Exchange members conduct their business through a process called open outcry.[15] Using vocal chords and hand signals, each trader or broker becomes his or her own auctioneer, buying or selling, openly declaring a particular bid[16] or offer.[17] Although the open outcry system does appear chaotic, looks can be deceiving. In actuality, open outcry fosters an extremely efficient market environment. By facilitating full and unimpeded competition, the open outcry system enables market participants to arrive at the best possible price—the highest willing bid and lowest willing offer—at all times during which the market operates.

Depending on the type of seat they hold (CME, IMM or IOM), members can trade futures contracts on physical commodities, financial instruments or options on futures. But regardless of what they trade, most traders and brokers do not normally take actual delivery[18] of a commodity. Rather, they will usually opt to close out a contract with an offsetting transaction.

For certain contracts, no actual physical delivery ever takes place. Instead, contracts such as Eurodollars or stock index futures may only be settled with a cash payment. When a futures contract is cash-settled, a settlement price, equal to the prevailing cash price on the last day of trading, is established.

The marketplace encompasses floor traders,[19] and floor brokers.[20] Floor brokers execute orders for the accounts of the executive decides to hedge against a falling dollar by using Japanese yen options at the CME. He likes the limited risk nature of buying options.

Singapore, 2 p.m.
A local toy manufacturer, worried that his export earnings could diminish should inflation fears hurt the U.S. dollar, decides to hedge his dollar exposure. He buys Japanese yen futures on SIMEX, knowing he can exit his positions on the CME later in the day thanks to the two exchange's mutual offset link.

Exchange's member firms, either for the firms themselves or for their individual and institutional customers.

As stated previously, individual floor traders are necessary to accommodate institutional orders. Although the traders themselves might make or lose money, other parties—producers, buyers, investors—are protected from price instability by the breadth of the market.

While individual traders employ a host of strategies, generally speaking, their tactics fall under one of three headings:

- Position trading. A position[21] trader buys or sells based on a specific market opinion.
- Spreading.[22] A spreader tries to take advantage of changes in the price relationship between one contract and another.
- Scalping.[23] A scalper, in effect, makes the market, trading for small gains by establishing, then quickly closing out, long[24] (buy) or short[25] (sell) positions.

• The Role of the Speculator

Without the speculator, the market simply would not exist for the hedger. Speculators do not *create* risk; instead, they *assume* the risk that already exists for the producer or the user of a commodity. Far from contributing to market volatility, the speculator helps to ensure its stability. Not only does the speculator assume risk, he or she contributes much of the capital that ensures a large pool of liquidity.

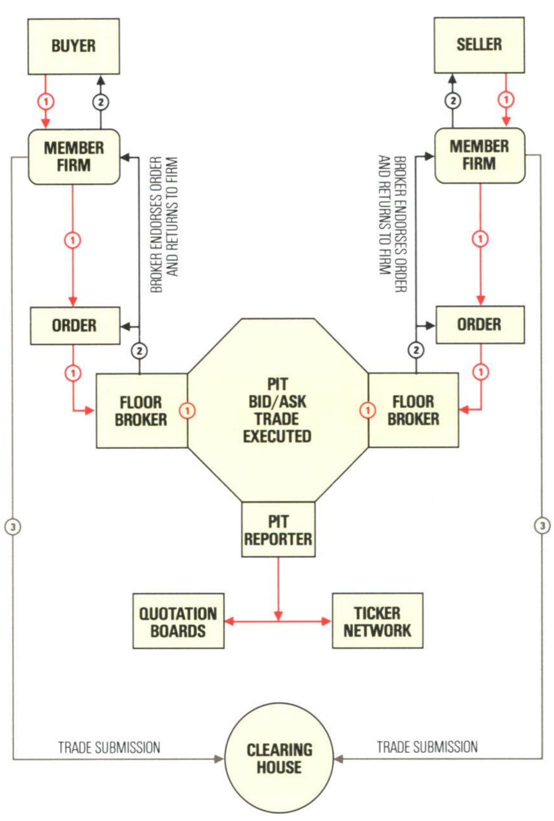
Speculators use the market in order to profit from the price fluctuations which occur naturally. The price of grain, for example, is usually low at harvest time when the supply is normally plentiful. But adverse weather or a blight during the growing season would send prices back up, hence the fluctuations. Other external factors also affect the price of financial instruments or commodities. Interest rates are influenced by shifts in the economy; geopolitical factors impact the supply of commodities such as oil and various metals; even elections can influence stock market performance or the value of a country's currency.

Speculators focus on the change in actual price levels. The potential for profit motivates them to gather information on supply and demand. Then, having absorbed this data, they buy and sell accordingly. In the process, they provide a wealth of information about the impact of current events on expected future demand. Consequently, the price of a contract represents all the information that speculators have brought to the marketplace at any given time.

• Hedging: Serving Institutional Needs

To demonstrate how institutional or corporate investors can protect

How a Trade is Made



IV. Chicago, 6 a.m.
Traders crowd the CME Eurodollar, currency and Treasury bill pits, anxiously awaiting the CPI report at 7:30 a.m. and any hints about FOMC intentions.

London, Noon
Growing inflation worries are battering the dollar. The British banker decides to hedge more of his ED exposure and also to begin hedging currency forward agreements his bank has with major clients.

Yellow-jacketed arbitrage clerks signalling bid and offer prices to phone clerks who are in touch with customers from around the world.

their holdings by hedging, financial futures, first introduced in 1972 by the CME, will serve as an instructive example.

In simple terms, the "price" of money as a commodity can be expressed as a foreign exchange rate or as an interest rate. Either way, changes in that price pose a risk for the institutional investor. Corporations that do business overseas are also particularly vulnerable.

Fluctuations in foreign exchange rates can have an adverse effect on a company's balance sheet by turning anticipated profits into operating losses, because meeting debits in a rising foreign currency is costly. Conversely, if the value of a foreign currency falls in relation to the U.S. dollar, the value of the company's foreign credits decreases correspondingly. Import payables, export receivables, foreign loans and deposits, investments denominated in foreign currencies—all are susceptible to foreign currency exposure.

In recent years, volatile interest rates alone have created a critical need for institutional hedging. Interest rate futures and options on futures have been an effective hedge—a risk management tool—for institutions and businesses that lend or borrow large sums of money.

Interest rate futures and options can be used to control everyday business risks in at least three ways: by locking in yields on future purchases of goods and materials, by preserving the value of securities, by enhancing long-term earnings.

Stock index futures and options present still another dimension for institutional investors. Because of their liquidity, futures markets can accommodate large orders. This in turn permits investors to hedge the market risk of large positions.

• How an Order is Executed

Buy and sell orders are transmitted directly to the CME floor, to appropriate member firms, via telephone or data transmission lines. Upon receipt, the orders are time-stamped and then delivered to the trading area, or pit,[26] by an order clerk or runner.

Investors may give a variety of instructions to floor brokers. Examples are limit,[27] market-if-touched,[28] stop,[29] open,[30] cover,[31] straddle,[32] switch,[33] and GTC.[34] However, the CME reserves the right to prohibit the use of certain of these strategies at various times (often on the last day of trading in an existing contract) in order to maintain fair and orderly markets.

Different contracts generally are traded in separate pits, and each pit is divided into a number of sections designated for trading in particular contract months. No trading may occur outside a contract's assigned pit, nor is trading permitted at any time other than during those hours which have been designated by the Exchange.

The individual broker charged with handling a firm's orders for a specific future or delivery month is responsible for executing the order. If it is a market order,[35] the broker attempts to fill it immediately. If it is away from prevailing market prices, or if it carries contingent instructions with respect to the time at which it may be executed, the order is held in the floor broker's deck.[36]

In compliance with Exchange rules, floor brokers and floor traders may announce bids and offers only when they are equal to or better than the existing market for a specific contract. Thus, customers have the benefit of the highest available bid and lowest available offer. All bids and offers can be accepted immediately, in full or in part, by any other trader.

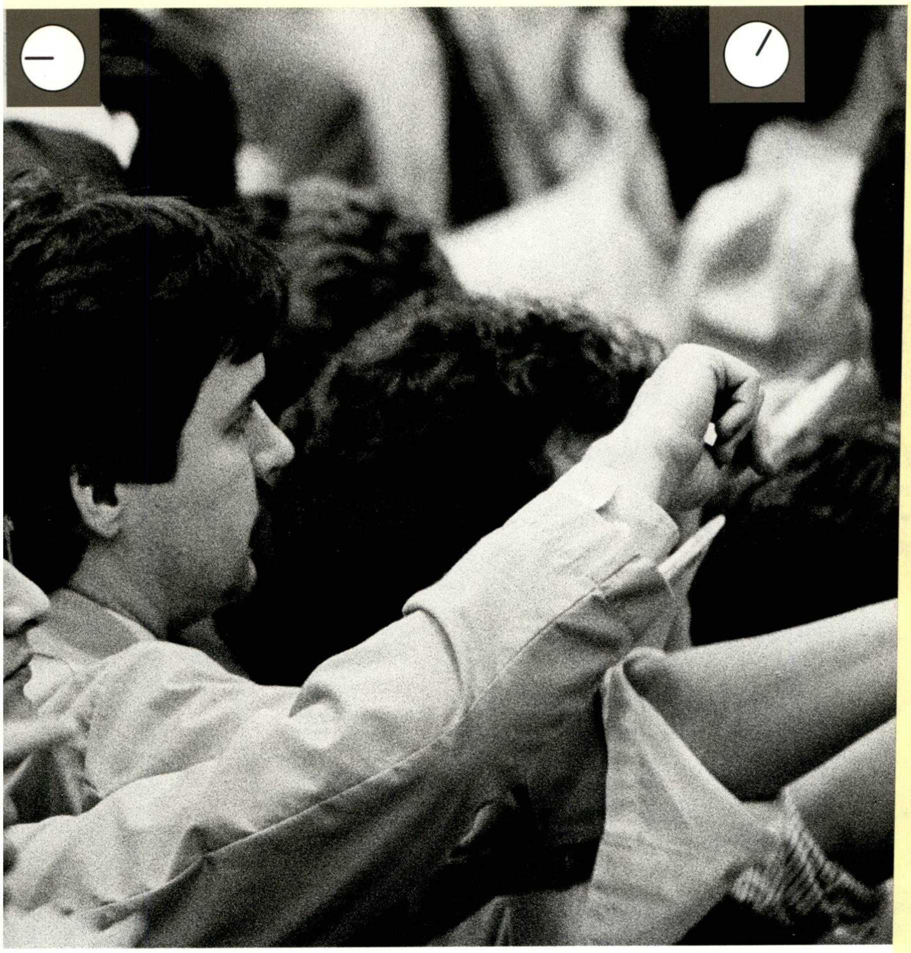
When a trade is completed, participants make a written record showing the contract traded and time of trade, delivery month, and price and size (number of contracts). At the same time a trained pit observer, who is employed by the CME, reports the details of the transaction and the information is entered into the CME's computerized price reporting system.

Price information is then
(1) displayed on the price quotation boards on the floor;
(2) transmitted to investors and brokers around the world via wire services and quotations vendors;
and (3) stored for later use in recording trades.

Once executed, an order is endorsed by the broker and returned to the member firm's communications desk. There, it is

Tokyo, 9 p.m.
Still at work, the Japanese executive alerts his traders to prepare for the Chicago opening. They will be buying strips of yen calls extending out to the expected delivery date of their new sports car.

Amsterdam, 1 p.m.
A Dutch real estate investment trust manager plans a major U.S. office building purchase. Higher U.S. interest rates could increase its costs, so he begins constructing hedge alternatives.



Hand signals
Joke here
mocking POTUS
frequently imitated
hand gestures

again time stamped and reported to the customer.

For a market order, the entire order-handling process usually takes less than three minutes.

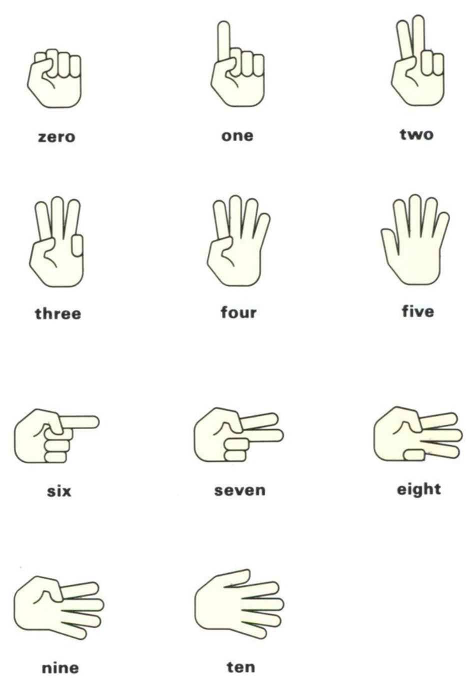
The Language of Hands

Open outcry is a classic example of the age-old auction market at work. With every trader acting as his or her own auctioneer, all eyes are focused on the pits, where bids and offers are conveyed by voice and with hand signals. The rule of thumb: the louder and more energetic, the better.

Together, the shouts and the hand signals compose an intricate network of communication that appears to be uncontrolled, but which is, in fact, extremely orderly. That efficiency, however, does nothing to diminish the excitement of the floor. Indeed, the milling throngs of brightly jacketed traders, the wildly gesticulating upstretched hands, the loud hubbub and the strenuous activity combine to make this grand auction one of the most visually dramatic demonstrations of free enterprise at work. What's more, this process is repeated every weekday in the trading pits at the CME and at other exchanges around the world.

Four basic hand signals and their meanings are:

1. *Buying a contract:* Bids are signalled by holding the palm of the hand facing the body—when the palm is facing the trader, he is indicating a desire to buy.
2. *Selling a contract:* Offers are signalled by holding the palm of the hand away from the body—when the palm faces away from the trader, he is indicating a desire to sell.
3. *Indicating a price:* Price quotes, for either bids or offers, may be indicated by a series of hand signals made directly in front of the body, with arms vigorously upstretched. Prices one through five are quoted with vertically-extended fingers. Prices six through nine are quoted with the fingers extended horizontally. Zero is indicated by a closed fist. Numbers above 20 are indicated by rapid sequential hand signals using fingers and closed fist. In this series, five is shown by crooking the fingers. For example, 25 would be two upraised fingers followed by crooking the two fingers in rapid up and down movements.
4. *Indicating a quantity:* The number of contracts to be either bought or sold are quoted in the same way as indicating a price (see 3) except that the signalling hand is held near the head.



• Order Execution

1. A customer's order comes to the CME's trading floor via telephone or a computerized order-entry system.

2. The order, upon receipt by a clearing member firm's communication desk, is time-stamped.

3. The order is signaled to the appropriate trading pit by a yellow-jacketed runner who gives it to a broker for execution.

4. When the customer's order is executed, the floor broker endorses its time, price and quantity.

A bird's-eye view of the Eurodollar pit and trading area, part of the interest rate quadrant on the CME trading floor. Other quadrants house the various pits for the currency group, the stock index group and the agricultural group of contracts.

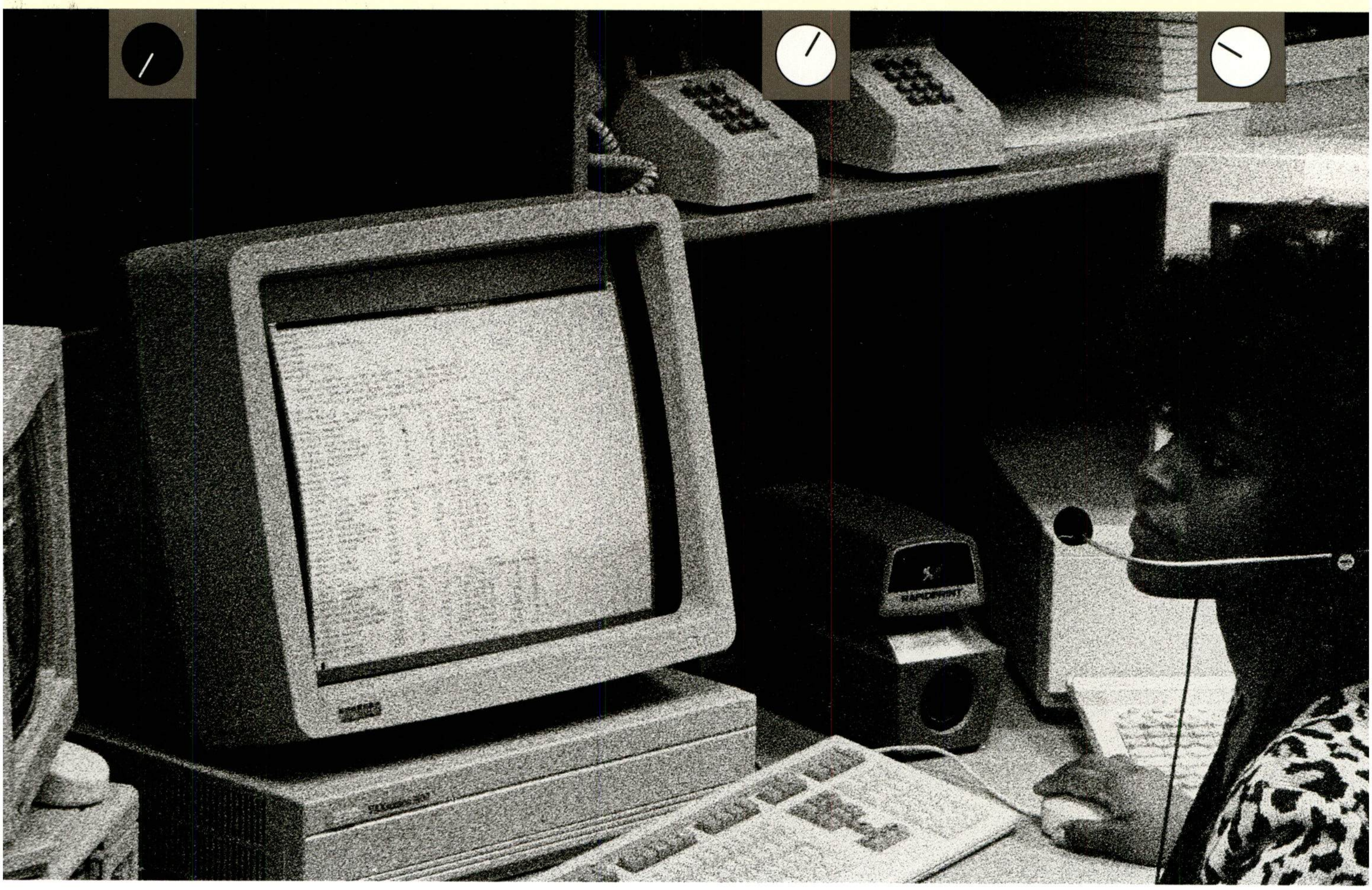
5. A blue-jacketed observer relays the price by mobile phone for immediate entry into the CME's computerized price reporting system. This information is then transmitted to market participants around the world.

6. Once executed, the order is returned, by a runner, to the member firm's communications desk, where it is again time-stamped. The order is then confirmed to the customer who entered it.

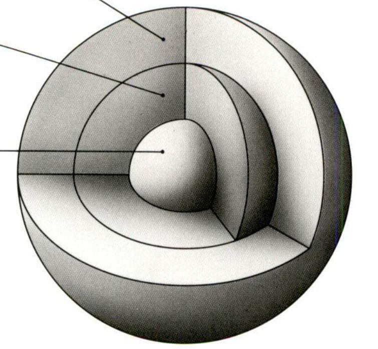
V. Chicago, 7 a.m.
The market's worst fears are confirmed when the CPI report shows nearly a one percent jump. Currency futures prices climb as interest rate futures prices plummet.

London, 1 p.m.
His hedges in place, our London banker watches for signs the markets may be over-reacting to the CPI report.

Tokyo, 10 p.m.
The Japanese executive takes personal charge of his company hedging activities. In addition to



Safeguarding the Marketplace



Never in the CME's history has a customer lost money due to the financial failure of a clearing member. Nor, for that matter, has a clearing member ever failed to meet its settlement variation to the Clearing House, or even missed meeting a margin call. And no clearing member has ever failed to satisfy delivery obligations.

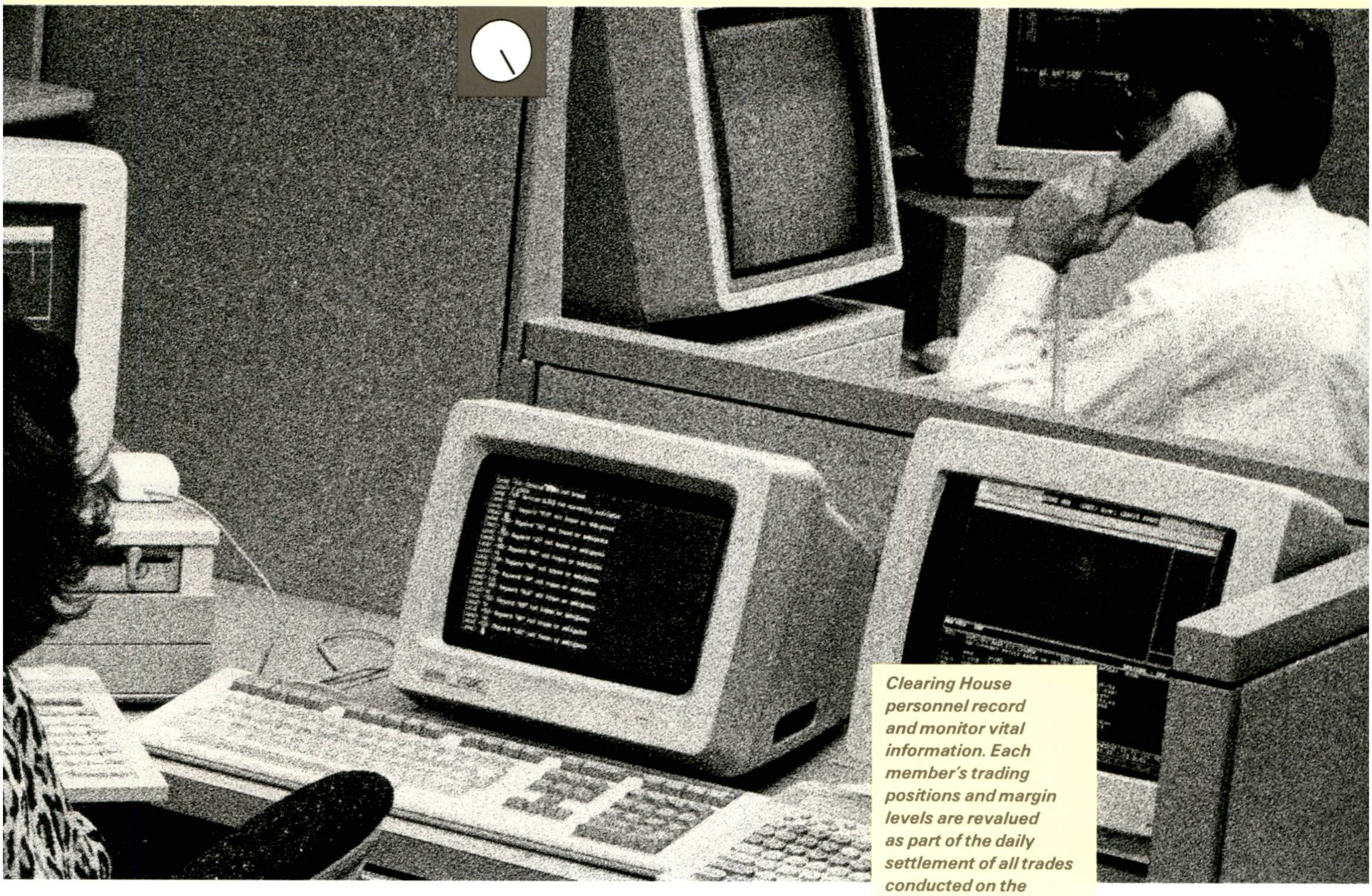
The CME, acutely aware of its increasingly pivotal role in the international financial marketplace, has set out to establish a financial safeguard system, designed to protect both clearing members and their customers, that is second to none.

The Exchange provides and regulates a marketplace where futures contracts and options on futures contracts are traded, and it clears and guarantees all matched transactions that occur through its facilities. At the same time, the CME sets and monitors financial requirements for its clearing members. As an additional safety net, in 1969, the Exchange created a Trust Fund for customer protection.

• Customer Protection

Of course, the CME's first protection is initial margin. Beyond that, the CME's financial safeguard system focuses on two fundamental relationships. First, to minimize injury to customers in the event of any member's financial reversal or insolvency, member firm-customer relationships are meticulously scrutinized. Also, endeavoring buying calls, he begins entering various options spreads to further limit his exposure.

San Francisco, 5 a.m.
A pension fund manager frets about what the inflation report will mean for his fund's stock portfolio. He decides to get to work early and hedge his holdings with stock index futures.



Clearing House personnel record and monitor vital information. Each member's trading positions and margin levels are revalued as part of the daily settlement of all trades conducted on the CME's trading floor.

to protect all other clearing members from the severest consequences of a default by any individual clearing member, the Exchange diligently supervises inter-clearing member relationships. In each instance, effective customer protection hinges on the CME's ongoing ability to monitor the financial pulse of each of its clearing member firms.

Protection Against Insolvency: The Commodity Exchange Act is the federal law that regulates commodities trading. Among its provisions is the stipulation that futures commission merchants (FCMs) maintain capital at prescribed levels and that customer funds be segregated from a firm's own funds. These provisions are intended to ensure that the insolvency of an individual clearing member firm will bear no direct consequence on customer funds.

Not only does the CME require that funds be segregated; in order to ensure that capital is at or above prescribed levels, the CME administers a financial surveillance program which strictly gauges the financial condition of its clearing member firms. In particular, this program assesses clearing members' internal controls and adequacy of capital structure, while also pinpointing all sources of funds. When appropriate, the CME does not hesitate to impose higher capital requirements than those required by the CFTC.

The Exchange also maintains a second level of protection. The CME Trust Fund, with principal of some $30 million, can be used to compensate any customer who incurs a loss in the event that a clearing member insolvency does occur. A caveat: In order to qualify, customer losses must have stemmed from a clearing member's financial default and, of course, they would have been suffered in connection with futures or options transactions at the Exchange. The fund is administered at the discretion of the fund's trustees, who are members of the CME Board of Governors.

Protection Against Default: The CME Clearing House deals solely with its own member firms. In turn, the firms assume responsibility for their customers.
The Exchange secures payment directly from its clearing members—not their customers or even other members of the Exchange. Therefore, the Exchange does not rely on the trading public to make good its losses.

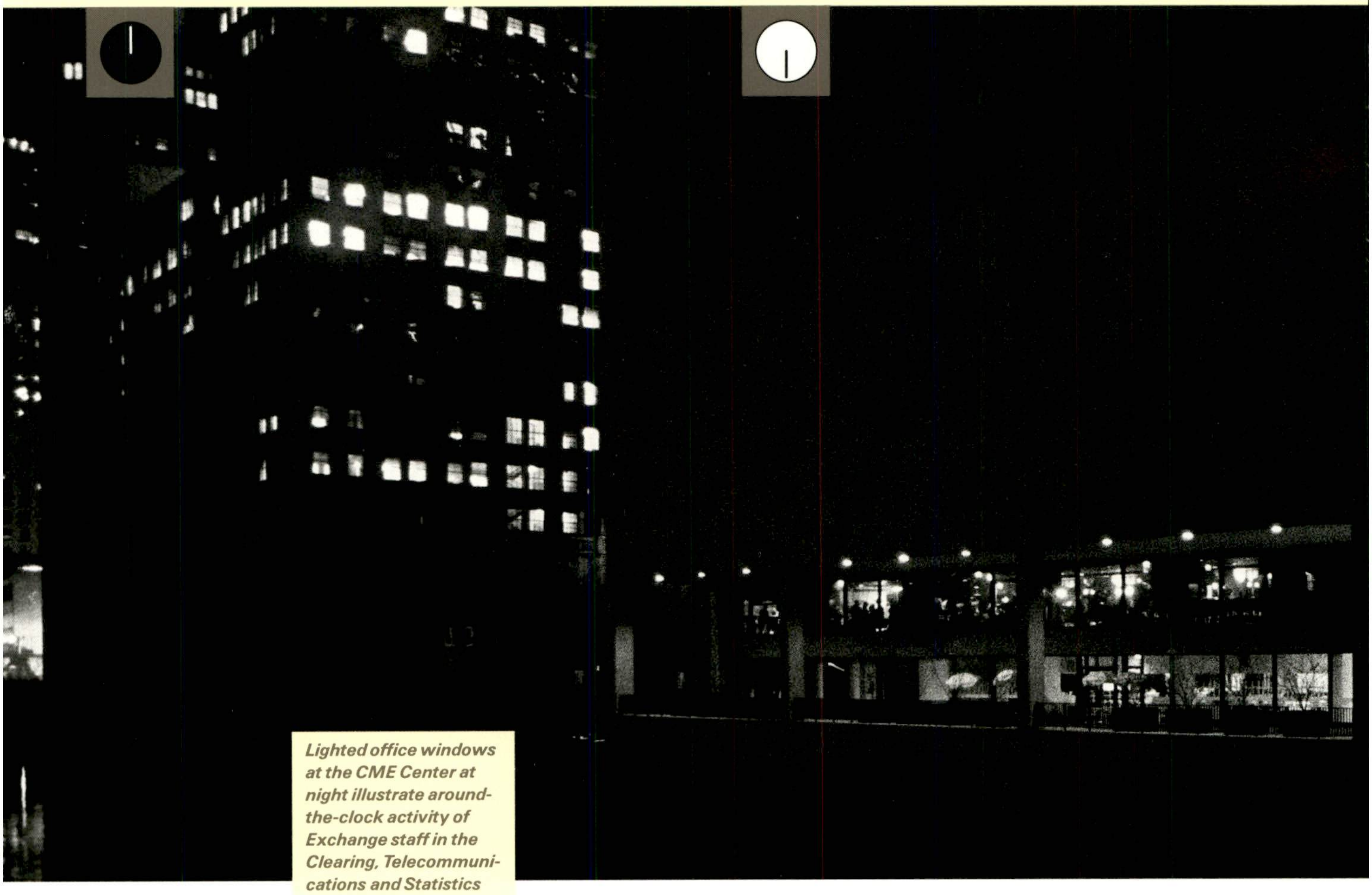
Such independence permits the CME to substitute itself in every transaction that "clears," as buyer from seller and as seller to buyer. So, for example, if a clearing member's position appreciates by $100,000, the Exchange makes good the gain, regardless of any default by the party with an opposite position.

Maintaining Financial Integrity: Financial integrity is paramount at the CME, which imposes a set of net capital requirements on clearing members that are generally higher than those required under federal law. These requirements are augmented by regular reporting and financial surveillance, including on-site audits. In fact, at least every two years, each clearing member must submit to a full-scope financial/operational audit. In addition, to facilitate the timely exchange of relevant financial data concerning joint clearing members[37] the Exchange maintains formal information-sharing agreements with a variety of futures and securities clearing organizations, both domestic and foreign.

At the CME, capital requirements for clearing members are flexible. Even so, they are more stringent than those prescribed by the CFTC. The CME system is based on positions

VI. Chicago, Noon
Rumors on FOMC intentions buffet the markets. One wire service carries an unconfirmed report that the Fed has definitely decided to push rates higher. The Fed responds only that the FOMC meeting is still in progress and that it does not comment on policy matters.

London, 6 p.m.
The London banker starts to exit some of his hedge positions, sensing the markets have moved about as far as they can be expected to based on the CPI report.



Lighted office windows at the CME Center at night illustrate around-the-clock activity of Exchange staff in the Clearing, Telecommunications and Statistics departments.

carried, market volatility and other factors. What's more, the Exchange retains emergency authority to mandate immediate increases in capital, margins on deposit, reductions in positions or, when necessary, early settlement.

The Exchange sets minimum initial and maintenance margin[38] requirements on each futures contract. It requires clearing members to collect this initial margin from customers. Margin levels, which are generally determined in light of prevailing market volatilities, must then be sustained at a minimum maintenance level.

Unlike most other exchanges, the CME requires gross margining. Margins must be deposited by the clearing member for each open position—long and short—held at the end of each day's trading, with an appropriate credit adjustment for positions that are part of spreads. By contrast, other clearing organizations, using a "net" system, collect margin only on a firm's net long or short positions. So a firm long 99 and short 100 of the same contract would deposit margin for 199 positions in the CME system, instead of a single position in the net system. The "gross" system provides greater immediate assurance that the funds necessary to "margin" futures positions exist and have been segregated. Clearing members trading for their own accounts must make the required margin deposits on the same gross basis.

Recently, the CME has developed a new margining system called SPAN (Standard Portfolio Analysis [of risk]) that pegs margin requirements to the overall risk in positions held. SPAN uses options pricing models to determine the overall risk of entire portfolios, and, although it recognizes the unique features of options, it treats futures and options uniformly.

In standard options pricing models, three factors affect options values: the price of the underlying futures contract, volatility (variability of futures price) and time left to expiration. As these factors change, futures and options gain or lose value. SPAN constructs scenarios of futures price changes and volatility changes to see what the entire portfolio might reasonably lose in a day. The SPAN margin then covers this largest reasonable one-day loss.

In an effort to standardize option margining, SPAN has been made available to all other domestic futures exchanges. It has already been adopted by many of them.

Each of these measures is designed to assure that a single day's loss will not be great enough to cause insolvency, default or other serious ramifications. Additionally, initial margin and net capital requirements and position limits are enforced rigorously to confine losses to levels that can be absorbed—first by a firm and second by the Clearing House—without disruption of business.

If a clearing member fails to meet its obligations to the Clearing House promptly, the CME may apply that member's security deposit, non-customer margins on deposit and any of its other available assets (e.g., Exchange memberships) to discharge the firm's financial obligations. The Exchange would next apply surplus assets of the Exchange and, thereafter, the security deposits (about $35 million) contributed by all CME clearing members.

Should any default remain, the Clearing House would look to its clearing members, who would be obligated to make good the loss. The balance of the loss is allocated by taking into account solvent members' "adjusted net capital," trading volume and open

Tokyo, 3 a.m.
Now asleep, the Japanese executive has left word with his night trading desk to call him immediately should any firm evidence of FOMC intentions surface.

Geneva, 7 p.m.
A Swiss chocolate and cereal maker, concerned about the impact the day's activity may have on his raw material costs, begins hedging with U.S. agricultural futures.

positions. The CME is the only major exchange with this "common bond" assessment against its clearing members.

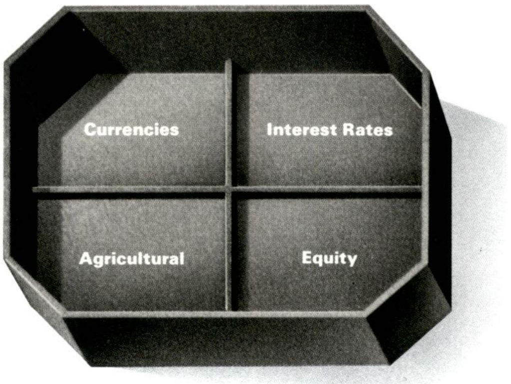
• The Clearing System

The Clearing House is the guarantor – through the CME's clearing member firms – of performance for each futures and option contract. In its role as delivery agent for those contracts which entail physical delivery, the Clearing House ensures (1) timely delivery by the seller of the exact quality and quantity of the commodity or financial instrument and (2) full and timely payment by the buyer. While most futures contracts are liquidated before expiration, the remainder must be delivered or settled in cash according to detailed specifications.

Daily Settlement: A critical feature of the CME's clearing system is daily settlement of all transactions conducted on the Exchange. This process begins with the daily settlement price,[39] which is calculated for each futures contract. Once established, the settlement price is used for all new and open (unliquidated) positions to compute the settlement variation for futures and the premium pass-through and increase or decrease in margin for options.

In addition to the settlement-cycle run at each day's close of business, the CME maintains a daily "intra-day" settlement cycle. Routinely, this cycle is run at 1:30 p.m. Variation payments are determined by applying current market

CME Trading Floor Quadrants



VII. Chicago, 2 p.m.
A late wire service report quoting an unnamed Fed official states that the FOMC had decided the day's CPI report was an aberration. Markets quickly reverse direction at the close and traders look ahead to the next day's U.S. GNP report.

London, 8 p.m.
The London banker congratulates himself for realizing market reaction to the CPI report had run its course.

Tokyo, 5 a.m.
The Japanese executive rises early in response to a phone cal regarding the Fed story. He puts

prices to the previous day's final positions by firm and origin. If, for some reason, market conditions warrant it, another intra-day cycle will be run at any time during the trading day.

Every account holding futures positions is adjusted in cash daily when it is marked-to-market.[40] (This marked-to-market system does not apply to options on futures contracts. Instead, the full value of the premium[41] is debited from the buyer's account and credited to the seller's account by the next trading day. Hence, for the duration of the option's life, regardless of any change in the option's settlement price, no cash will subsequently flow between buyer and seller. Nevertheless, the possibility that the seller of an option may have to deposit additional margins to secure his position still remains.)

The Exchange's Clearing House does not extend credit. If a position has lost value since the previous day, that loss is treated as a debt to the Clearing House — a debt which must be made good in cash by 6:40 a.m. the next business day. If a position has gained in value, the clearing member's account is adjusted. The gain and loss adjustment is called "settlement variation." In turn, the clearing member must collect or otherwise adjust its customers' accounts.

In the overall system, few elements are as important as variation margin, which was devised to avert the injurious collapse of a clearing member. This "no-debt" system, in which losses cannot accumulate over time, protects the Exchange against default by its clearing members since its debt exposure is limited to only one day's price movements. Because each account must be settled daily, this system also affords clearing members protection against default by their customers, since clearing members are also required by Exchange rules to collect settlement variation from their customers daily.

Margin Requirements: Each day, the Clearing House checks margins on deposit for each clearing member to ensure that they meet or exceed required SPAN levels. If a clearing-member firm's margin-account balance falls below a certain maintenance margin[42] level, an additional deposit (margin call[43]) is collected to restore it to the necessary level. The clearing member would then repeat that process with its customer accounts for collection of original margin.[44] But, as always, it is the clearing member who is directly responsible to the Clearing House for its customers' performance.

Cash Settlement: Traditionally, futures contracts were always fulfilled by offsetting positions or by taking delivery of the underlying commodity. Rather than purchasing an offsetting contract, a trader with a short position would want to deliver the commodity if futures were high relative to cash. Conversely, if the futures were too low, a trader with a long position would prefer to take delivery and then sell into the cash market.

But today, with the new generation of contracts that are "cash-settled," the Exchange reports the closing price of the futures contract as a sum equal to the prevailing cash price. Now, by definition, futures prices converge to cash prices at contract expiration.

The CME initiated cash settlement in Eurodollar futures trading. Later, the concept was applied to all stock index futures contracts, and then to some agricultural commodities.

his hedging operations on hold until more information becomes available on Fed intentions.

New York, 3 p.m.
The corporate treasurer, expecting the GNP deflator to show that the CPI number was not an aberration, lays plan to continue hedging when GLOBEX begins operations that evening.

Viewers in the CME's Visitors' Gallery overlooking the trading floor watch throngs of brightly jacketed traders making bids and offers by open outcry. As part of the Exchange's commitment to public education, visitors are briefed on the mechanics of futures markets, and a variety of materials are available to further assist in explaining the business of the Exchange.

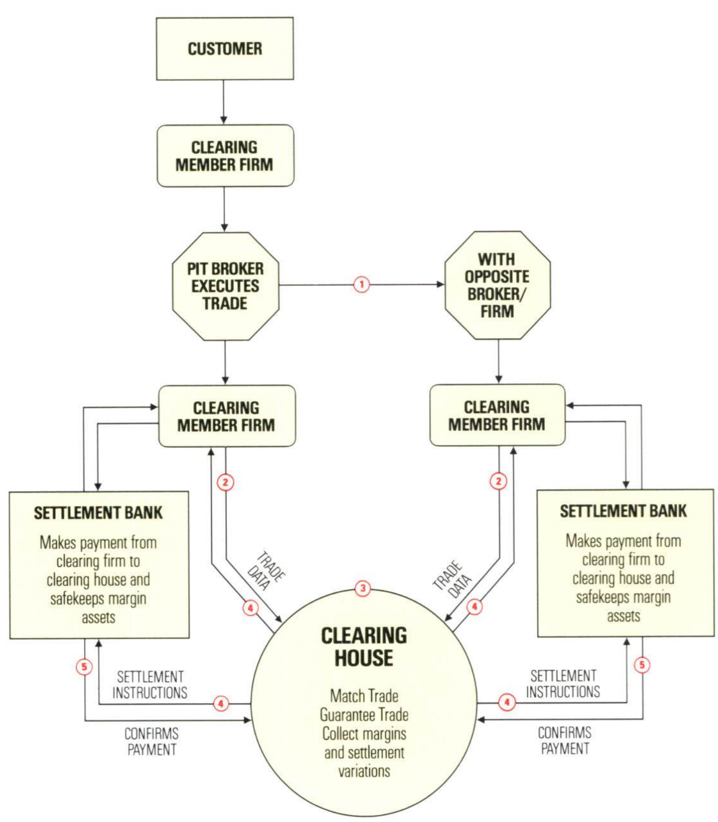
• From Customer to Clearing House

1. Customer places order with FCM
2. FCM transmits order to a floor member, who brokers the trade in the pit
3. Pit or Floor Broker confirms order execution to FCM who confirms same to customer
4. Broker submits transaction record to a clearing member
5. Clearing member reports order to Clearing House
6. Clearing House verifies and guarantees trade; collects or pays daily settlement variation to clearing member
7. Clearing member adjusts settlement variation with FCM, who in turn adjusts same with customer

All orders to buy and sell futures and options on futures traded on the CME must be (a) executed by an individual member of the Exchange, (b) made in the name of a clearing member of the Exchange, (c) carried in an account held by the clearing member and (d) "cleared" through the CME's Clearing House by the clearing member firm.

An individual or firm which does not hold a CME membership must place its orders through a clearing member of the Exchange. Thus the relationship between an individual or firm and a clearing member is either as a direct customer or, through a non-member FCM, as an indirect customer.

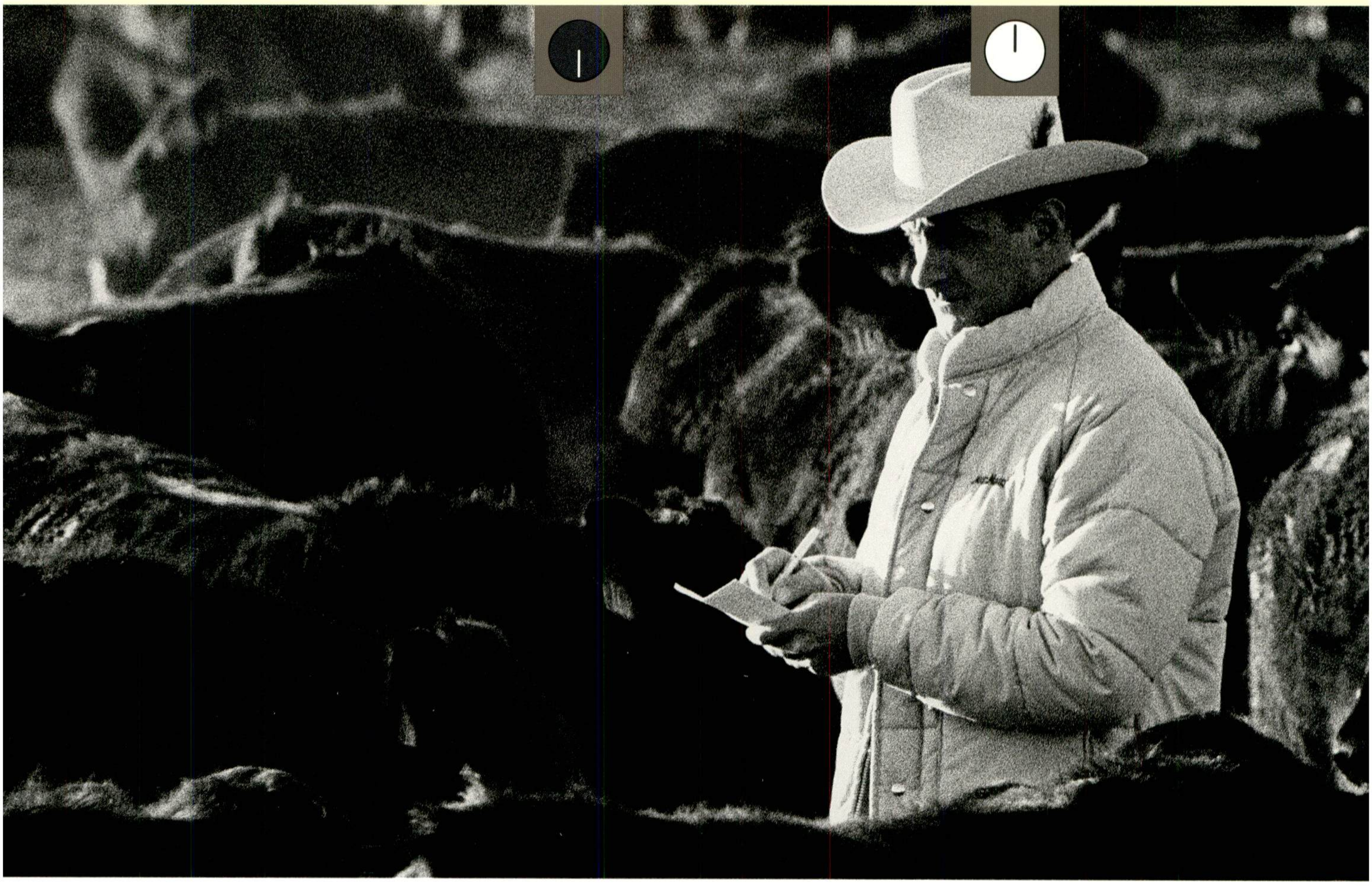
The Order Process



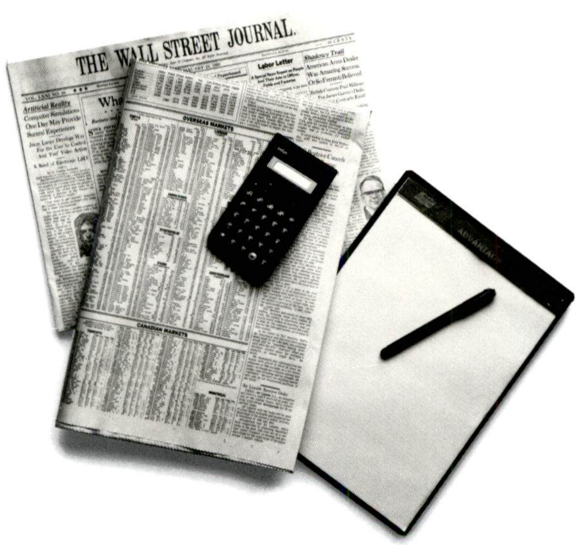
The second 24 hours

I. Chicago, 6 p.m.
Traders switch operations to GLOBEX, anticipating another busy night ahead of the morning's U.S. GNP report.

London, Midnight
The London banker tries to catch a few hours sleep while his trading desk keeps watch on Far Eastern market activity.



Reshaping an Industry



• Futures Markets at the CME

The CME is the world's leader in financial futures trading. Overall, with daily average trading volume in excess of 400,000 contracts, the CME is the second largest futures exchange in the world.

Historically, the CME has been an industry pacesetter. As new commercial risks have been pinpointed, the Exchange has been quick to respond with appropriate hedging products. To confirm that they will satisfy an economic need, all new futures and options contracts must be reviewed and cleared by the CFTC before they are granted approval to trade.

Futures and options on futures are used as hedging vehicles by a wide range of investors and other commercial

Tokyo, 9 a.m.
Currency markets move erratically as the dollar is caught in a tug-of-war between short-term traders who think higher U.S. rates will help the currency and long-term traders who fret that rising U.S. inflation will eventually damage the greenback.

Portland, OR, 4 p.m.
A lumber company executive contemplates what impact rising U.S. inflation may have on the homebuilding market for his wood products. He calls his Washington office and asks it to fax him the latest government reports on housing starts and new housing permits issued.

To the owner of this feeder cattle ranch in Colorado, up-to-date knowledge of CME prices can have a major impact on his livelihood. By hedging with futures, he can better plan the operation of his feedlot.

interests. Following are four basic hedging examples – physical commodities (live cattle); foreign currencies (Deutsche marks); interest rates (T-bills); and equity-related products (S&P 500s).

• Physical Commodities

Meat and Livestock: For decades, the CME has offered a broad range of futures on storable agricultural products. In the 1960s, the Exchange bucked industry traditions by introducing contracts on live animals. Today, the CME is the world's largest futures trading center for non-storable commodities – live cattle, feeder cattle and hogs. In addition, the CME trades pork belly futures and also features options trading on live cattle futures and live hog futures.

Basic Short Futures Hedge: Agricultural Commodities

Situation: In November, a cattle producer buys feeder cattle. His intent is to feed them out and then sell them the following April. To cover all production costs and to guarantee a reasonable profit, the producer will need to sell the cattle at $65/cwt (which is the

What Happens If Cattle Prices Fall?

	Cash		Futures		Basis
Nov.	Expected Price	67.00	Sell April LC	70.00	–3.00
Apr.	Cash Price	63.00	Buy back April LC	65.00	–2.00
	Cash Receipts +Futures	63.00 5.00	Gain in Futures	5.00	
	Realized Price	**$68.00**	$1.00/cwt narrowing in basis		

What Happens If Cattle Prices Rise?

	Cash		Futures		Basis
Nov.	Expected Price	67.00	Sell April LC	70.00	–3.00
Apr.	Cash Price	72.00	Buy back April LC	75.00	–3.00
	Cash Receipts +Futures	72.00 –5.00	Gain in Futures	–5.00	
	Realized Price	**$67.00**	No change in basis		

II. New York, 1 a.m.
The corporate treasurer keeps a wary eye on GLOBEX and Far Eastern trading. The directionless nature of the markets prompts her to put her hedging plans on hold until morning.

London, 6 a.m.
The British banker arises and scans his Reuters terminal for the morning market news. He reviews the news with his trading desk via mobile phone as he drives to work.

After a trading session of interest rates futures, traders check screens that monitor the day's activity in Eurodollars. As many as 792,000 total contracts have been traded at the CME in one day.

same as saying $65 per hundred pounds of carcass weight). The producer estimates that the basis (cash price minus futures price) in his area is –$3.00/cwt.

Outlook/Concern: The producer fears that prices in the cash market may decline between November and April.

Action: In November, April CME Live Cattle (LC) futures are trading at $70.00. The producer decides to *sell* April Live Cattle futures to establish a forward sale price.

Result: Regardless of which direction the market moves between November and April, the producer has established a profitable price of $67.00, plus or minus basis changes.

• Financial Instruments

The CME offers trading in financial futures and options on foreign currencies and interest-rate instruments.

In 1972, the CME became the first exchange to trade financial futures contracts when trading on seven foreign currencies commenced in the

Tokyo, 3 p.m.
With market sentiment on the dollar mixed, the Japanese auto executive decides to wait for the U.S. GNP report before deciding whether to implement additional hedges.

Paris, 7 a.m.
A French government bond dealer worries that higher U.S. interest rates could send French rates up as well. If that happens, the value of his government bond inventory will fall. He hedges with French bond contracts traded by the MATIF on GLOBEX.

IMM division. Among the currencies traded: the British pound, Canadian dollar, Deutsche mark, Japanese yen and Swiss franc.

Subsequently, short-term interest-rate instruments were added in 1976 (T-Bills) and in 1981 (CDs and Eurodollars). In 1989, Eurorate differential contracts, designed to hedge against interest rate risk were unveiled. Three such "DIFF" contracts are currently traded: Dollar-Sterling, Dollar-Mark and Dollar-Yen.

Short Hedge With Options: Currency

Situation: On March 1, a U.S. firm commits to export materials to West Germany in June. Upon delivery, the U.S. firm will be paid 125,000 Deutsche marks (DM); it plans to buy dollars with the DM proceeds.

Outlook/Concern: The DM will fall in value (the dollar will rise) during the three-month period, March to June. As a result, when the firm buys dollars with the DM proceeds in June, it will receive fewer dollars than necessary to cover its costs and provide a reasonable profit.

Action: On March 1, the firm buys one June DM put option with a 39 cent strike price. The put covers one DM futures contract for the delivery of DM 125,000 at 39 cents in June. On June 1, the U.S. firm sells back the put option, and exchanges its Deutsche mark receipts covering the exported materials for U.S. dollars.

Result: If the dollar value of the DMs due the firm declines, the put offsets most of the loss. If, however, DM value rises, the firm profits after the premium of the put is covered. In contrast to futures which offset the cash market change in either direction, the option serves as one-way insurance by protecting against adverse moves in the DM.

Basic Short Hedge: Interest Rates

Situation: A corporation has a $1 million floating-rate loan outstanding as of March 7. The interest rate on the loan is reset every six months (26 weeks) so that it is two percent higher than the prevailing 13-week Treasury bill rate.

Outlook/Concern: Initially, the corporate treasurer had anticipated stable interest rates until June. But on March 7, she changed her forecast when, because of unexpectedly strong growth in GNP, she decided that rates were headed up.

Action: To minimize the impact of rate increases, the corporate treasurer sold two 13-week June T-bill futures contracts. She sold two contracts rather than one because, while the futures contract is based on a 13-week instrument, the reset interest rate on the loan would be in effect for 26 weeks. The value of a basis point in the case of the loan is double the value of a basis point in the futures contract.

Result: Had the corporation not hedged in the futures market, it would have paid a rate of 13.20 percent on its loan for the period May 21 to November 19. Hedging allowed the corporation to effectively reduce the rate on its loan for this period to 11.61 percent.

III. Chicago, 6 a.m.
CME traders scan the various news services available on the floor, comparing GNP predictions from major economists. The consensus points to expectations of moderate economic growth in the previous quarter.

London, Noon
U.S. stocks traded in Europe have been under selling pressure all morning. A London manager of an international stock mutual fund decides to hedge against further declines with CME S&P 500 futures when that market opens.

• Equity Related Products

The CME began trading S&P 500 futures and options, based on the Standard & Poor's index of 500 stocks, on its Index and Option Market division in 1983. The S&P 500, a standard measure of portfolio performance, is a widely recognized weighted index of the equity prices of 500 companies – 400 industrials, 40 utilities, 20 transportation and 40 financial institutions. Their combined market value represents around 80 percent of the value of all stocks listed on the NYSE.

The Exchange also holds exclusive rights to trade futures and options on both the Nikkei Average – which measures the performance of the Tokyo stock market – and the Morgan Stanley Capital Markets EAFE (Europe, Australia, Far East) Index in key time zones (except for Japan).

Long Hedge: Stock Index Futures

Situation: An insurance company expects an inflow of roughly $830,000 on December 1. With it, the company will purchase a diversified portfolio of stocks.

Outlook/Concern: It is September 1, and management expects a rise in the stock market by the time cash is in hand three months from now (December).

Action: On September 1 the firm buys 10 December S&P 500 futures contracts. On December 1, the contracts are liquidated (i.e., 10 December S&P 500 futures contracts are sold), and the company purchases roughly $830,000 worth of stock in the cash market.

Result: The stock market rose between September and December. As a result, the firm has to pay more in December than it would have had to pay in September for the same group of stocks. Using the S&P 500 cash index to represent the firm's purchase of a diversified portfolio of stocks, the firm has to pay $11,300 more for the same portfolio of stock in December than in September. However, a major portion of this increased cost, $7,250, is offset via hedging in the futures market. In other words, since the entire index gained in value, the value of the futures contracts rose as well. Thus, when the insurance company sold the futures contracts, it realized a profit which was roughly proportional to the rise in the cash value of the index.

• Contracts Traded on The Chicago Mercantile Exchange

Physical Commodities

Live Cattle
Live Hogs
Pork Bellies
Feeder Cattle
Options on Live Cattle futures
Options on Live Hog futures
Random Length Lumber

Foreign Currency Contracts

Australian dollars
Deutsche marks
Swiss francs
Japanese yen
British pounds
Canadian dollars
Options on Australian dollar futures
Options on Deutsche mark futures
Options on British pound futures
Options on Swiss franc futures
Options on Japanese yen futures

Tokyo, 9 p.m.
The Japanese trade ministry begins discreetly contacting major exporters to gauge opinions on the dollar and the impact a falling dollar will have on the nation's exports.

Des Moines, IA, 6 a.m.
A life insurance company executive rises early. He had his office electronically transmit a review of the firm's investments to his home computer while he slept. He begins reviewing the list and contemplating his hedging alternatives.

The "price" of money as a commodity, whether in foreign exchange or interest rates, is of critical concern to banks around the world. Foreign banks, such as these in London's financial district, "The City," are increasingly using futures markets as part of their risk management strategies.

Interest Rate Contracts

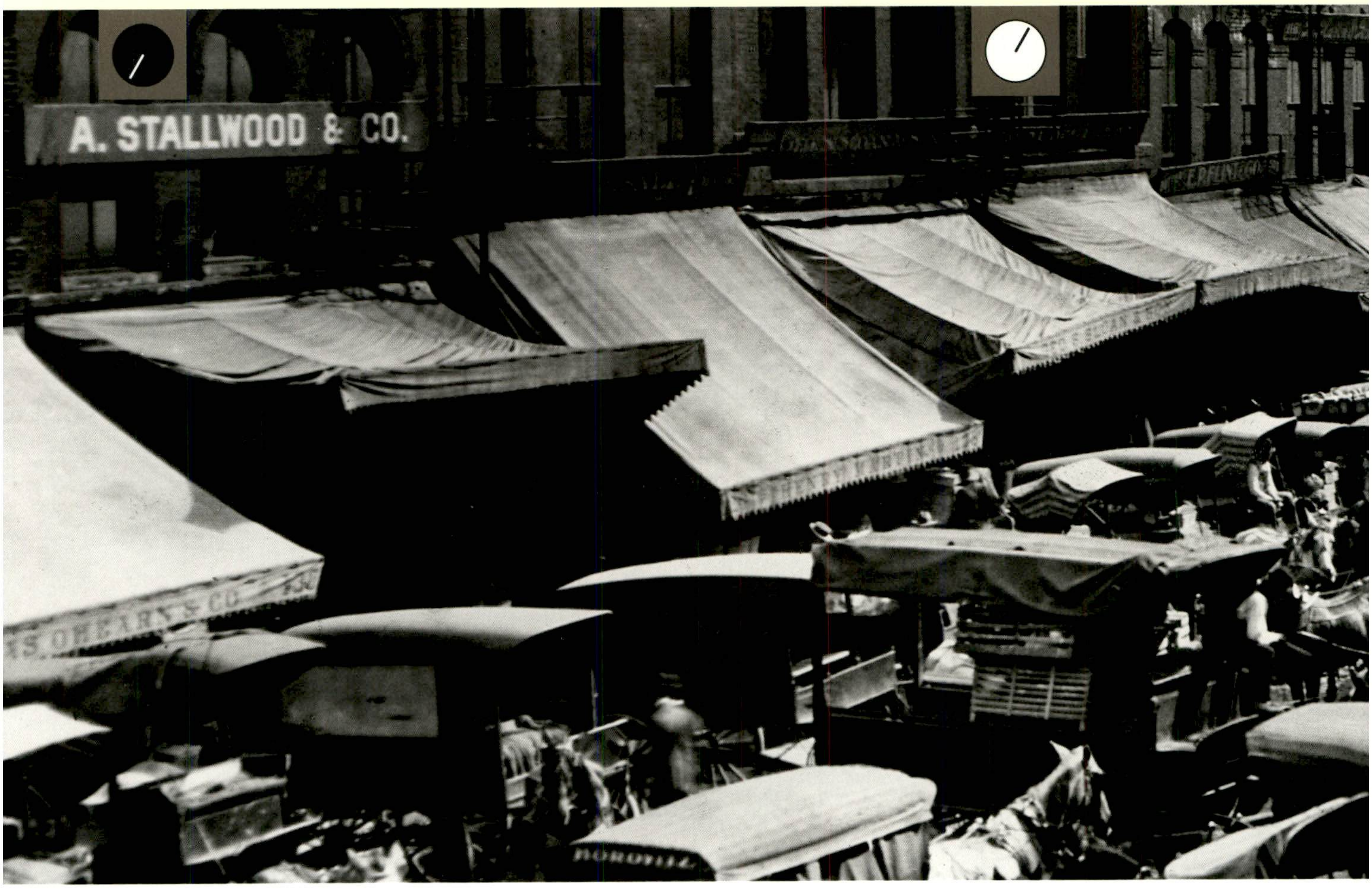
3-month Eurodollar
90-Day Treasury Bill
Options on Eurodollar futures
Options on T-bill futures
Eurorate Differentials
One-month LIBOR futures

Equity Related Products

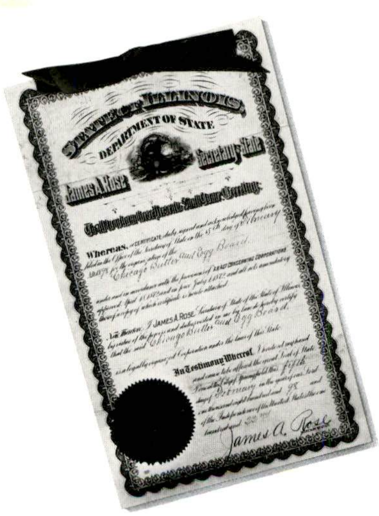
S&P 500 futures
Options on S&P 500 futures

IV. Chicago, 7 a.m.
Market activity is brisk thanks to a surprising GNP report that shows slow rather than the expected moderate growth. Further, the GNP deflator, another widely followed inflation indicator, points to a lower inflation level than the prior day's CPI report, suggesting the CPI number was indeed an aberration caused by seasonal factors.

London, 1 p.m.
Sure that the Federal Reserve will not send U.S. rates higher in the face of sluggish growth, the London banker decides he does not need to institute further hedges. He continues scanning the news wires for any hints on the FOMC's deliberations that day.



CME: Decades of Growth



• A Flourishing Marketplace

In the decades preceding the Great Fire of 1871, Chicago, fast becoming America's railroad center, was already the hub of the nation's agricultural marketing system. Its strategic location at the crossroads of America was bolstered by its extensive waterways and railroad connections.

By the 1860s, Chicago had become center for trading in meat, grain and other agricultural products. The first centralized trading facility to serve part of this market was the Chicago Board of Trade. It was established in 1848 to provide farmers a central marketplace for their grain.

What made the city's markets even more attractive was the growing use of "to arrive" or futures contracts, which allowed agricultural buyers and sellers to specify delivery of a particular commodity at a predetermined later date. As futures became more sophisticated, these forward-priced contracts provided protection against erratic price movements, thus helping to mitigate marketplace risk.

In the beginning, buyers and sellers of agricultural commodity contracts were the merchants who actually dealt in the raw commodities that were traded. Soon, however, it became clear that the trading pits afforded a wealth of attractive opportunities to speculators. These speculators made the markets more fluid by placing incremental prices between wide bid and offer spreads made by the commodity traders.

Tokyo, 10 p.m.
The Japanese executive sees the GNP report analyzed on his local cable news broadcast. While he feels slightly relieved, he still worries about the dollar. He calls his trading desk and instructs it to check the firm's computer data base to correlate past U.S. economic growth with the dollar.

Montreal, 8 a.m.
A Canadian beer importer ponders whether the Canadian dollar may follow the U.S. dollar lower against the German mark. If it does, the cost of German beer he imports will rise. He decides to hedge on his next shipment by selling CME Canadian dollar futures.

South Water and Clark streets in the 1880s where CME predecessor, the Chicago Produce Exchange, and, later, the Butter and Egg Board, was located for 14 years, 1885–1899.

From Butter and Eggs to Full-Fledged Exchange

On May 20, 1874, a group of South Water Street provisioners established the Chicago Produce Exchange to provide a systematic market for butter, eggs, poultry and other farm products.

In 1895, a group of dealers who were dissatisfied with market quotations formed a division within the Exchange to "establish official quotations." Four years later, these dealers formed a separate organization called the Chicago Butter and Egg Board.

By the end of World War I, the Board was trading a broader range of contracts and had reorganized itself to allow for public participation under carefully supervised commodity trading regulations. Finally, on September 26, 1919, the Butter and Egg Board changed its name to the Chicago Mercantile Exchange, a name which more accurately reflected its purpose. At the same time, in order to centralize and process futures transactions, a CME Clearing House was established.

On December 1 of that year, the first day of trading on the new CME, three cars[45] of eggs were traded in 45 minutes. Then, memberships were limited to 100 persons and seats were often sold among traders at the end of the trading day for about $100.

Nine years later, on April 25, 1928, the CME moved into the newly constructed 14-story building that would be its home for the next four decades. The new 5,000-square-foot, two-story high trading floor was large for its time. It was surrounded by blackboards crammed with statistical information. There were three pits and dozens of brokers' desks. Some of the trading was facilitated by board markers who wrote bid and offer information on the blackboards. If bids and offers matched, they were erased and trades were confirmed when they were written on "sales boards."

Until World War II, the Exchange was trading futures on eggs, butter, cheese, potatoes and onions. Then, in October 1945, it listed turkey futures. Four years later, apples, poultry and frozen egg futures began trading. Still later, in 1954, futures on iron and scrap steel were added.

• The 1960s: A Decade of Expansion

Emerging from World War II and price controls, Exchange members saw a critical need to develop new contracts, to expand the market, and to identify industries that could make use of futures in their economic planning. Indeed, this drive to develop new products would come to personify the CME, cementing its reputation for all time as the industry's pioneer.

On September 19, 1961, the CME began trading a new futures contract based on pork bellies (frozen slabs of uncured, unsliced bacon). It would become one of the world's most successful futures contracts. The strong performance of pork bellies convinced the Exchange to develop other contracts based on meats.

Until the 1960s, commodities contracts had been written only on storable, non-perishable goods that could be traded in the future, regardless of harvest time. But this was an industry custom that was about to be broken by the CME.

In 1964, the Exchange introduced futures trading on live cattle. Within seven years, the CME had introduced two other livestock contracts: Live Hog futures in 1966; Feeder Cattle futures in 1971. By 1969, the CME was the world's largest trading center for meat and livestock commodity futures.

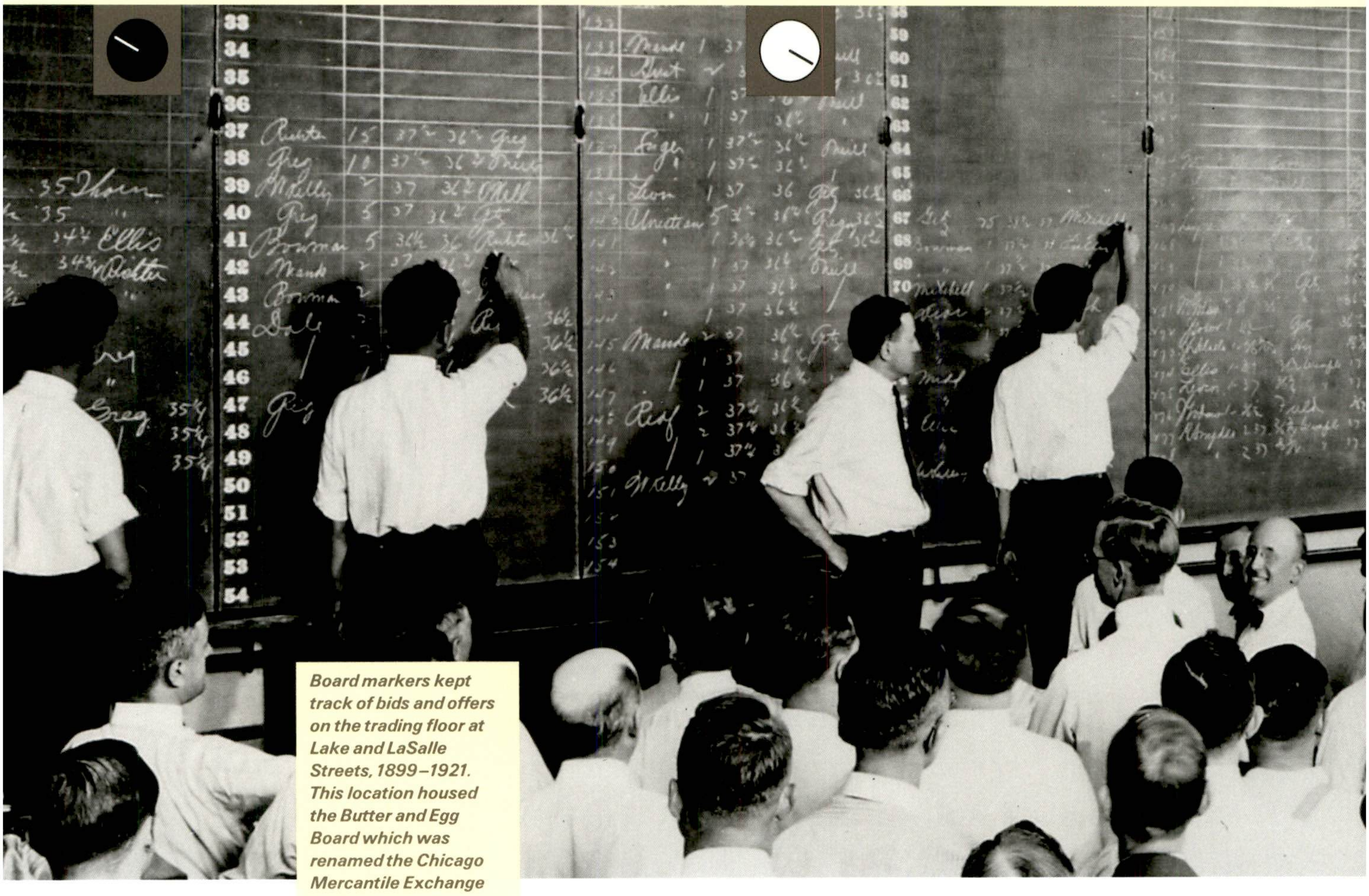
• The 1970s: Dawn of a New Financial Era

Until the 1970s, futures trading – and its risk transfer opportunities – was largely limited to agricultural commodities. However, the futures industry, anxious to broaden its markets, had grown restless.

At about the same time, the fact that the world's economy had grown infinitely more complex was becoming painfully evident. World currencies were in a nearly constant state of flux;

V. Chicago, 10 a.m.
The Fed unexpectedly injects reserves into the U.S. banking system, an indication it is not planning to send interest rates higher. Interest rate futures rally on the news while currency futures continue slightly higher on expectations a sluggish economy will hurt the dollar.

London, 4 p.m.
U.S. stocks are slightly higher based on the Fed's action. But the British fund manager still thinks the longer-term outlook for American equities is bearish. He continues to hedge the U.S. holdings in his portfolio with stock index futures.



Board markers kept track of bids and offers on the trading floor at Lake and LaSalle Streets, 1899–1921. This location housed the Butter and Egg Board which was renamed the Chicago Mercantile Exchange in 1919.

money, as a commodity, had come to be seen as alarmingly volatile. All of this seemed to confirm what many at the CME had begun to discuss with great enthusiasm: there was a market for trading in financial futures.

Other external events were to play a major role in the development and realization of a viable financial futures marketplace. Perhaps the most important of these was the collapse of the Bretton Woods Agreement, the post-war pact signed by President Harry S Truman and representatives of most European nations, which had instituted a narrow band of fluctuation between the U.S. dollar and other currencies.

With the breakdown of the agreement in 1971, fixed foreign currency exchange rates were at an end. But absent defined currency relationships, the world financial community was in need of a flexible investment tool to hedge the risk endemic to newly fluctuating exchange rates.

The CME, supported by economist Milton Friedman, asserted that the principles of agricultural commodities futures trading could be applied successfully to financial instruments.

In May 1972, the Exchange inaugurated the IMM with trading in contracts based on seven foreign currencies – the first futures contracts on financial instruments.

That same year, to accommodate product expansion, the Exchange moved its trading floor to larger quarters. A $6.5 million, 14,000 square-foot floor was built over the air rights of Union Station abutting the Chicago River. It was designed to provide room for growth until the year 1990, yet within six years, the floor was again overcrowded. In November 1978, the trading area was expanded to 23,000 square feet.

The eventual success of foreign currency futures stimulated the development of other financial contracts, namely interest rate futures and, eventually, stock index futures. Today, the CME trades the most diversified range of financial contracts of any exchange in the world.

• The 1980s: A Decade of Continuing Promise

On April 21, 1982, the CME established its IOM division for the trading of indices and options. The IOM's first contract was based on the Standard & Poor's 500 Stock Price Index; futures trading had at last become accessible to participants in the equity market. In the IOM's first three years, more than 27 million S&P 500 stock index futures contracts were traded. In 1983, S&P 500 options were added.

In 1983, the Exchange moved its operations and trading floor to the 40-story CME Center. The 70,000 square-foot trading area in the new Center embodies the most advanced concepts in trading floor design. Its telecommunications network, designed specifically with the trader in mind, is the most sophisticated high-speed system available.

The lower 40,000 square-foot main trading floor is the largest futures trading complex of any exchange in the world. The upper 30,000 square-foot auxiliary floor provides space for future expansion to meet anticipated growth.

The new Center was not yet a year old before the trading pits were reconfigured to provide trading facilities for options on currency, interest rate and livestock futures. Options on Deutsche mark futures and on Live Cattle futures were introduced in 1984. These were followed in early 1985 by options on the British pound, Swiss franc, Live Hogs and Eurodollar futures.

• Internationalization of Futures Markets

Most of the world's futures trading takes place in the pits of the 11 U.S. futures exchanges. Nevertheless, these American futures markets are international markets. The people who use them represent a broad range of worldwide interests – from individual investors to governments; from trading houses to foreign banks.

Some 70 percent of all futures trading in the United States takes place in the pits of Chicago. Of the nearly 313 million contracts traded on domestic

Tokyo, 1 a.m.
With currencies in a broad trading range, the auto firm's night desk feels comfortable with the currency option spreads it has in place. It plans no further action that evening.

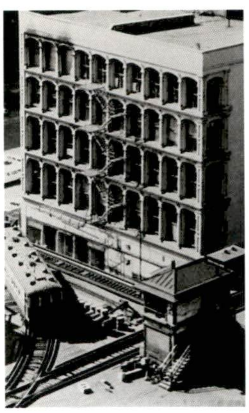
Boston, 11 a.m.
A New England computer manufacturer had been hedging the costs of a floating rate loan he recently closed using interest rate futures. With rates now stabilized, he decides to exit his short-term hedges while remaining hedged longer-term.

futures exchanges in 1989, more than 243 million changed hands on the floors of two of Chicago's futures exchanges – the Chicago Board of Trade (CBOT) and the CME. Together, they trade 10 of the industry's 12 most active futures contracts.

The Exchange's efforts to develop new markets extend beyond the United States. For example, in 1980, the CME became the first U.S. exchange to open an overseas office – in London. The London office sustains marketing and educational support throughout Europe, the Middle East and Africa. There are 150 CME member branch offices in those areas. In 1987, a CME Tokyo office was added.

• The CME/SIMEX Link

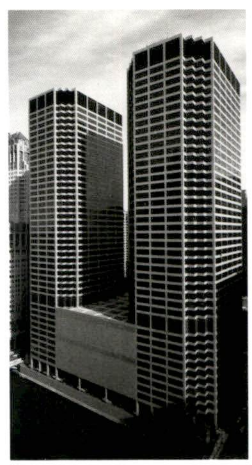
In 1984, recognizing that the financial world was at the threshold of yet another revolution – a technological revolution – the CME became the first futures exchange to establish



The building at Wells and Lake Streets which housed the CME's trading facilities from 1921 to 1928.

The 14-story Chicago Mercantile Exchange at Washington and Franklin Streets was home to the Exchange for 45 years, 1927–1972.

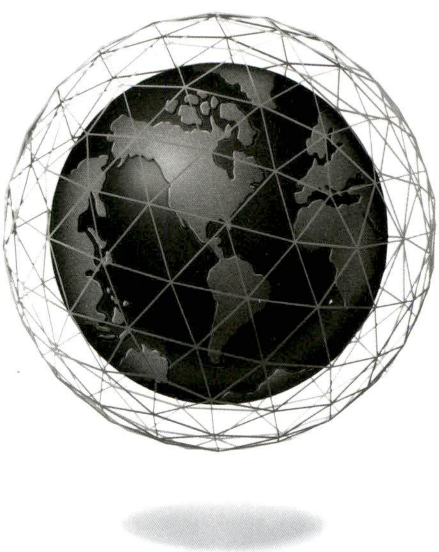
Over the Thanksgiving weekend in 1972, the Exchange moved its trading and support facilities to 444 West Jackson Boulevard. The 14,000 square foot trading floor was built over the air rights of the Union Station Company abutting the Chicago River.



In 1983 – again over the Thanksgiving weekend – the Exchange moved into the 40-story CME Center on Wacker Drive. The 70,000 square foot, 10-story high trading complex is the largest clear-span, column-free trading arena of any futures exchange in the world.

VI. Chicago, Noon
The Cable News Network carries a story quoting an unnamed Treasury department official as saying the dollar is still too strong to provide much help to the U.S. trade deficit. The Treasury quickly issues a denial, but markets become fixated on the original report.

Paris, 7 p.m.
The French bond dealer begins exiting his hedges having sold a major portion of his bond inventory when reports of lower U.S. interest rates began circulating.



an international trading link. This mutual offset[46] arrangement with the Singapore International Monetary Exchange (SIMEX) gave the Exchange a crucial edge in the race toward the inevitable: a full day-and-night trading cycle. The two exchanges – the CME and SIMEX – are independently owned and operated. They maintain separate clearing houses and audits, compliance and surveillance departments. The key to the success of the trading link is the ability to offer interchangeable futures and options contracts that can be offset on the other exchange.

• GLOBEX

Mutual offset, as it turned out, was just the beginning. Realizing that this technological revolution had wrought an increasingly sophisticated but incontrovertibly smaller world, in which political or economic developments in one country would immediately influence markets in each of the world's financial centers, it soon became clear at the CME that this new global market would demand a liquid trading system that was available around the clock. Hence, in concert with Reuters Holdings PLC, the Exchange introduced GLOBEX.

GLOBEX is an electronic trading system for futures and options that will provide investors of every stripe with a single, continuous, worldwide futures and options trading system available virtually 24 hours a day. GLOBEX's interactive network will be capable of linking thousands of terminals in every corner of the world into one deep and liquid marketplace.

The GLOBEX Principals

Reuters is an international communications organization with few peers. Specializing in

Singapore, 2 a.m.
The toy manufacturer has toiled throughout the day locking in purchase deals for his next three months production. That done, he exits his SIMEX ED positions at the CME.

Bonn, 7 p.m.
A German appliance manufacturer fears that a weaker dollar will hurt U.S. sales of his new coffeemaker. He buys CME mark futures to hedge his exposure to the falling dollar.

Price quote boards ring the CME trading floor. The boards list Exchange contracts and display recent sale prices, opening ranges, contract highs and lows and volume figures.

financial news and information, Reuters' integrated network – 165,000 terminals in 118 countries – spans the globe.

Also, Reuters has been a trading-services industry pacesetter with transaction networks enabling dealers in stocks, bonds, currencies and bullion to execute confidential transactions via computer terminal. In particular, the Reuters Monitor Dealing Service links nearly every currency trading organization of significance.

The CME will be joined in GLOBEX by a number of partner exchanges in the U.S. and around the world, all of which will have equal access to terminals and equal trading rights. These partner exchanges will retain control, ownership, clearing and financial responsibility for their own products. What's more, they will choose the hours during which their products are to be traded on GLOBEX.

Other information vendors will also be invited to join the GLOBEX network. These other vendors can, through their own systems, provide those of their customers who are members of partner exchanges with the ability to submit orders for GLOBEX products.

GLOBEX Technology

GLOBEX's dedicated interactive network links Reuters' Digital Equipment Corporation mainframe computers to smart trading terminals built around 386 microprocessor technology. The terminals employ Microsoft Windows software. The network is connected by 56 kilobit-per-second trunk lines, each backed by an additional line of equal capacity. Finally, the network, which relies on dedicated, fully redundant subordinate computers or concentrators, is exclusive to GLOBEX, remaining entirely separate from the Reuters Monitor Network.

A GLOBEX Transaction

1. Orders are entered through GLOBEX terminals.
2. A credit-control module verifies creditworthiness based on clearing-member determined parameters.
3. Orders are matched based on time and price priority.
4. Matched orders are confirmed the instant a match is made at each originating terminal. Meantime, all unmatched orders remain in the system until matched or withdrawn.
5. The instant a trade is executed, all participating quote vendors receive last sale price and quantity data, as well as updated information on best bid and offer and size of each.
6. As each trade is confirmed, it is routed to the CME clearing system for settlement.
7. Clearing member firms adjust buyers' and sellers' accounts for position and margin.

• Chicago

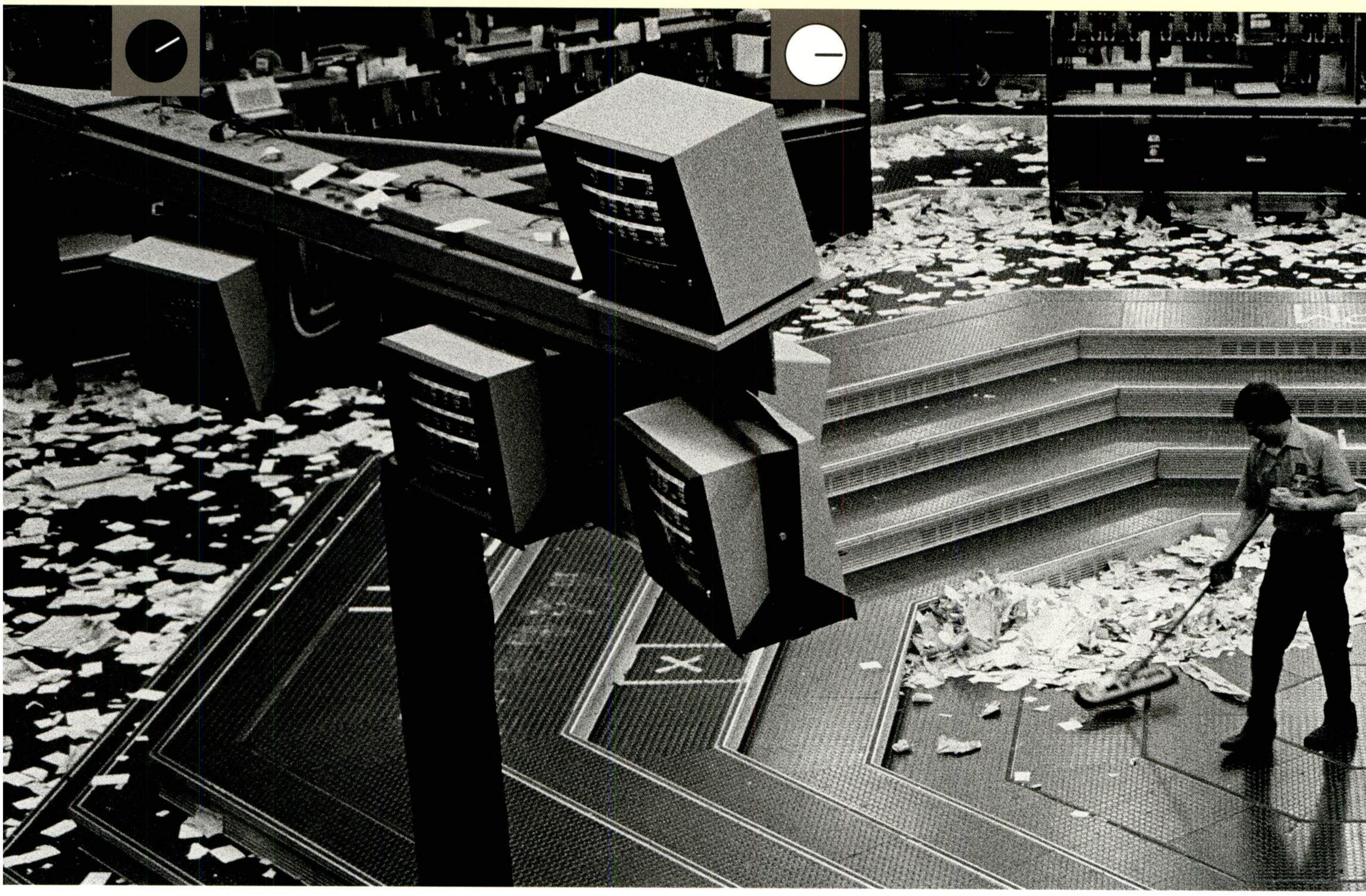
Chicago's prominence in the futures marketplace has helped to make the city an international financial center. It is home to more than 80 foreign bank branches and representative offices. The CME's International Monetary Market division, the world's busiest financial futures market, is an important component of the worldwide foreign exchange market. Its users include multinational banks, brokerage houses and investors from around the world.

Futures trading has helped make Chicago an international center for the financial industry. It has fueled the growth of highly sophisticated services in data processing, research, law and accounting that serve the brokerage community.

Prospects for the continued growth and development of Chicago's futures exchanges are unlimited. The Chicago Mercantile Exchange will remain at the forefront of this growth, continuing to develop and market new products that address the needs of today's investors, worldwide.

VII. Chicago, 2 p.m.
Currency markets already have closed as interest rate futures end their CME session. The past two days have provided several surprises about the U.S. economy. Now traders will look ahead to the next set of major economic reports for further economic clues.

Montreal, 3 p.m.
The Canadian beer importer, after a day of trans-Atlantic phone calls, has locked in his price for next month's beer shipment. That done, he plans to remove his CME Canadian dollar hedges when GLOBEX begins trading tonight.



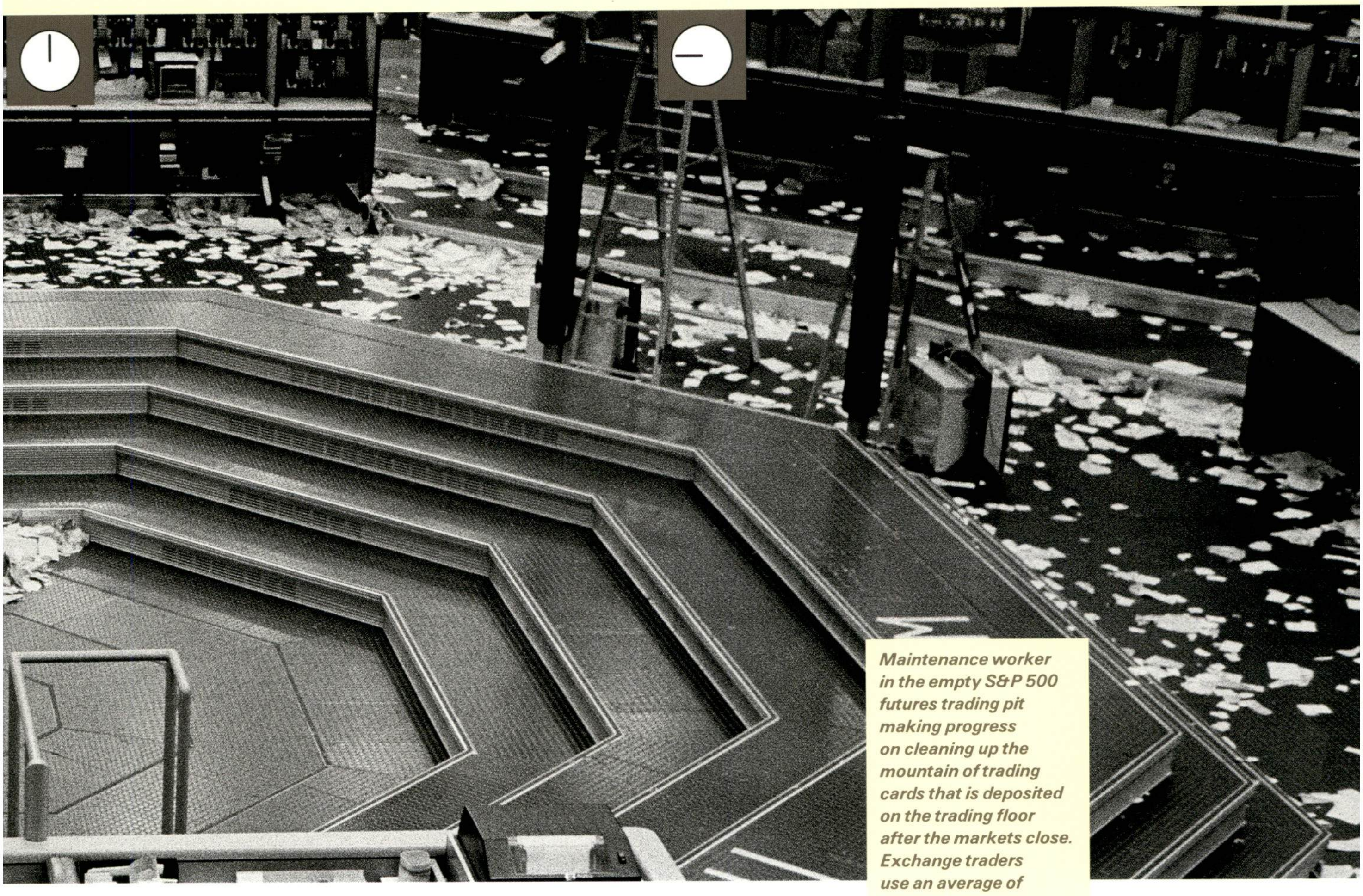
• Symmetry and Order

This brochure can do no more than give you a sense of the Chicago Mercantile Exchange – its tumult and order, the efficiency of its trading arena, the remarkable symmetry of its marketplace.

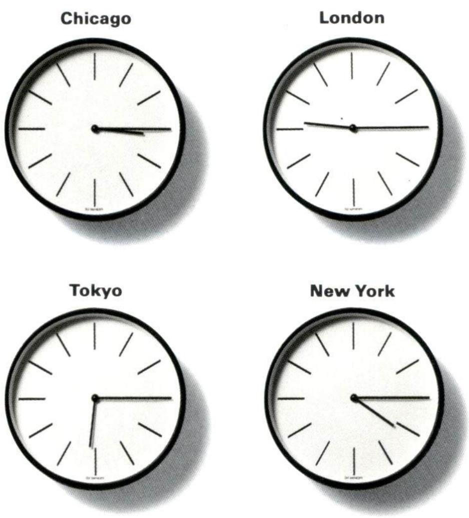
To capture the full essence of this place, visit the Exchange and watch the trading from the Visitors' Gallery. To learn more about futures and options on futures contracts traded on the CME, write for a selection of printed materials listed on page 33.

San Francisco, Noon
The pension fund manager continues watching Wall Street and decides to switch some hedges from futures to options on futures to better insulate himself from longer-term market uncertainty.

Amsterdam, 9 p.m.
The Dutch real estate investment fund manager receives faxed copies of the U.S. office building purchase agreement. Until the final papers are signed, he plans to continue hedging against the possibility of higher U.S. interest rates.



Maintenance worker in the empty S&P 500 futures trading pit making progress on cleaning up the mountain of trading cards that is deposited on the trading floor after the markets close. Exchange traders use an average of 62,000 cards every day.



Glossary

At-the-money: An option with a strike price close to current underlying product futures price.

Backwardation: A condition where the nearby (close to expiration) futures months and spot prices are at a premium to the deferred (farther to expiration) months.

16 **Bid:** Indicates a willingness to purchase a futures contract at a specific price.

Buy in: To cover, offset or close out a short position.

Buy on close: To buy at the end of the trading session at a price within the closing range.

Buy on opening: To buy at the beginning of a trading session at a price within the opening range.

Call: An option that gives the right to buy the underlying futures contract.

45 **Car:** A loose quantity term sometimes used to describe a contract, e.g., "a car of bellies." Derived from the fact that quantities of the product specified in a contract used to correspond closely to the capacity of a railroad car.

Cash commodity: The actual physical commodity as distinguished from a futures contract.

14 **CFTC:** The Commodity Futures Trading Commission, the federal agency created by Congress to regulate futures trading. The Commodity Exchange Act of 1974 became effective April 21, 1975. Previously, futures trading had been regulated by the Commodity Exchange Authority of the USDA.

Chicago Mercantile Exchange (CME): A not-for-profit corporation owned by its members. Its primary functions are to provide a location for trading futures and options, collect and disseminate market information, maintain a clearing mechanism and to enforce trading rules.

11 **Clearing House:** An adjunct to a futures exchange through which transactions executed on the floor of the exchange are settled using a process of matching purchases and sales. A clearing organization is also charged with the proper conduct of delivery procedures and the adequate financing of the entire operation.

12 **Clearing Member:** A member firm of the Clearing House. Each Clearing Member must also be a member of the Exchange. Not all members of the Exchange, however, are members of the clearing organization. All trades of a non-Clearing Member must be registered with, and eventually settled through, a Clearing Member.

Close, The: The period at the end of the trading session. Sometimes used to refer to closing price.

Closing range (or range): The high and low prices, or bids and offers, recorded during the period designated as the official close.

Commission: The one-time fee normally charged by a broker to a customer when a futures or options position is liquidated either by offset or delivery.

10 **Commitment:** A trader is said to have a commitment when he assumes the obligation to accept or make delivery on a futures contract.

Contango: A condition whereby the deferred futures months are at a premium to the nearby futures months and spot price.

6 **Contract:** A term of reference describing a unit of trading for a financial or commodity future. Also, the actual bilateral agreement between the buyer and seller of a transaction as defined by an exchange.

Contract month: The month in which futures contracts may be satisfied by making or accepting a delivery.

31 **Cover:** The purchase of a contract to offset a previously established short position.

Day order: An order that is placed for execution, if possible, during only one trading session. If the order cannot be executed that day, it is automatically cancelled.

Day trading: Refers to establishing and liquidating the same position or positions within one day's trading.

36 **Deck:** The floor broker's orders held in a stack awaiting execution.

Deferred futures: The most distant months of a futures contract.

18 **Delivery:** The tender and receipt of an actual commodity or financial instrument in settlement of a futures contract.

Delivery notice: The written notice given by the seller of his intention to make delivery against an open, short futures position on a particular date.

Delivery points: Those points designated by futures exchanges at which the financial instrument or commodity covered by a futures contract may be delivered in fulfillment of such contract.

Delivery price: The price fixed by the Clearing House at which deliveries on futures are invoiced; also the price at which the futures contract is settled when deliveries are made.

Discretionary account: All accounts over which an individual or organization, other than the person in whose name the account is carried, exercises trading authority or control.

Equity: The net profit in a futures trading account, assuming its liquidation at the going market price.

Exercise price: The price at which the underlying future or options contracts may be bought or sold.

First notice day: The first day, varying by contracts and exchanges, on which notices of intent to deliver actual financial instruments or physical commodities against futures are authorized.

20 **Floor broker:** A member who is paid a fee for executing orders for Clearing Members or their customers. A Floor Broker executing customer orders must be licensed by the CFTC.

19 **Floor trader:** A member who generally trades only for his own account, for an account controlled by him or who has such a trade made for him. Also referred to as a "local."

5 **Forward contract:** A cash market transaction in which delivery of the commodity is deferred until after the contract has been made. It is not standardized and is not traded on organized exchanges.

13 **Futures Commission Merchant:** A firm or person engaged in soliciting or accepting and handling orders for the purchase or sale of futures contracts, subject to the rules of a futures exchange, and who, in connection with such solicitation or acceptance of orders, accepts any money or securities to margin any resulting trades or contracts. The FCM must be licensed by the CFTC.

4 **Futures contract:** A standardized, transferable, legal agreement to make or take delivery of a specified amount of a certain commodity of a certain grade or type at a specific point in the future at a price determined at the time the agreement is made. They must be traded on organized futures exchanges.

Give up: An order executed by one brokerage house, but cleared by another house at the request of the customer.

34 **GTC: "Good till cancelled."** An order to buy or sell at a fixed price. It holds until executed or cancelled.

1 **Hedger:** One who purchases or sells a futures contract as a temporary substitute for a transaction to be made at a later date. Usually it involves opposite positions in the cash market and the futures market at the same time.

Index and Option Market (IOM): A division of the CME established in 1982 for trading stock index products and options.

International Monetary Market (IMM): A division of the CME established in 1972 for trading financial futures.

Inverted market: A futures market in which the nearer months are selling at price premiums to the more distant months.

37 **Joint Clearing Members:** Firms that clear on more than one exchange.

Last trading day: The final day under an exchange's rules during which trading may take place in a particular futures or options contract. Contracts outstanding at the end of the last trading day must be settled by delivery of underlying physical commodities or financial instruments, or by agreement for monetary settlement depending upon futures contract specifications.

27 **Limit order:** An order given to a broker by a customer which has restrictions upon its execution. The customer specifies a price and the order can be executed only if the market reaches or betters that price.

Liquidation: Any transaction that offsets or closes out a long or short position.

8 **Liquidity:** A market is liquid when it has a high level of trading activity, allowing buying and selling with minimum price disturbance.

24 **Long:** One who has bought a contract(s) to establish a market position and who has not yet closed out this position through an offsetting sale; the opposite of SHORT.

42 **Maintenance margin:** A sum, usually smaller than—but part of—the original margin, which must be maintained on deposit at all times. If a customer's equity in any futures position drops to, or under, the maintenance margin level, the broker must issue a "margin call" for the amount of money required to restore the customer's equity in the account to the original margin level.

38 **Margin:** An amount of funds that must be deposited with the broker for each contract as a good faith deposit on the contract.

43 **Margin call:** A demand for additional funds because of adverse price movement.

40 **Mark-to-market:** The daily adjustment of an account to reflect profits and losses.

28 **Market-if-touched (MIT):** A price order, below market if a "buy" or above market if a "sell," that automatically becomes a market order if the specified price is reached.

35 **Market order:** An order for immediate execution given to a broker to buy or sell at the best obtainable price.

45 **Maximum price fluctuation:** The maximum amount the contract price can change, up or down, during one trading session, as fixed by Exchange rules in the contract specification.

Minimum price fluctuation: Smallest increment of price movement possible in trading a given contract. Also called tick or point.

46 **Mutual Offset:** A system, such as the arrangement between the CME and SIMEX, which allows trading positions established on one exchange to be offset or transferred on another exchange.

National Futures Association (NFA): The futures industry self-regulatory organization established in 1982.

Nearby: The nearest active trading month of a financial or commodity futures market.

Nominal price: Price quotations on futures for a period in which no actual trading took place.

Notice day: A day on which notices of intent to deliver pertaining to a specified delivery month may be issued.

[7] **Offer:** Indicates a willingness to sell a futures contract at a given price.

[3] **Offset:** Elimination of a current long or short position by making an opposite transaction.

Omnibus account: An account carried by one Futures Commission Merchant with another Futures Commission Merchant in which the transactions of two or more persons are combined and carried in the name of the originating broker, rather than designated separately.

Open contracts: Contracts which have been bought or sold without the transaction having been completed by subsequent sale or purchase, or by making or taking actual delivery of the financial instrument or physical commodity.

Open interest: Number of open futures contracts. Refers to unliquidated purchases or sales.

[30] **Open order:** An order to a broker that is good until it is cancelled or executed.

[15] **Open outcry:** The continuous auction process in which bids and offers on the trading floor are made and accepted out loud.

Opening, The: The period at the beginning of the trading session officially designated by the Exchange during which all transactions are considered made "at the opening."

Opening price (or range): The range of prices at which the first bids and offers were made or first transactions were completed.

[7] **Option:** The right, but not the obligation, to buy or sell an underlying futures contract.

[44] **Original margin:** The margin needed to cover a specific new position.

P&S: Purchase and Sale statement. A statement provided by the broker showing change in the customer's net ledger balance after the offset of a previously established position(s).

[26] **Pit:** A specific area of the trading floor that is designed for the trading of an individual futures or options contract.

[21] **Position:** An interest in the market, either long or short, in the form of open contracts.

[41] **Premium:** The price of an options contract; also, in futures trading, the amount the futures price exceeds the price of the spot commodity.

Primary market: The principal underlying market for a financial instrument or physical commodity.

Put: An option granting the right to sell the underlying futures contract.

Range: The high and low prices, or high and low bids and offers, recorded during a specified time.

Registered representative: A person registered with the CFTC who is employed by, and soliciting business for, a commission house or Futures Commission Merchant.

Round-turn: Procedure by which the long or short position of an individual is offset by an opposite transaction or by accepting or making delivery of the actual financial instrument or physical commodity.

[23] **Scalp:** To trade for small gains. It normally involves establishing and liquidating a position quickly, usually within the same day.

[39] **Settlement Price:** A figure determined by the closing range which is used to calculate gains and losses in futures market accounts. Settlement prices are used to determine gains, losses, margin calls, and invoice prices for deliveries.

[25] **Short:** One who has sold a contract to establish a market position and who has not yet closed out this position through an offsetting purchase; the opposite of a LONG.

Short hedge: The sale of a futures contract(s) to eliminate or lessen the possible decline in value of ownership of an approximately equal amount of the actual financial instrument or physical commodity.

Short selling: Establishing a market position by selling a futures contract.

Short squeeze: A situation in which a lack of supply tends to force prices upward.

[2] **Speculator:** One who attempts to anticipate price changes and, through buying and selling contracts, aims to make profits; does not use the market in connection with the production, processing, marketing or handling of a product.

Spot month: The nearest delivery month on a futures contract.

Spot price: The current market price of the actual physical commodity. Also called "cash price."

[22] **Spread:** Refers to simultaneous purchase and sale of contracts for the same commodity or instrument for delivery in different months, or in different but related markets.

[29] **Stop order (or stop):** An order to buy or sell at the market when a definite price is reached, either above (on a "buy") or below (on a "sell") the price that prevailed when the order was given.

[32] **Straddle:** Purchase or sale of an equal number of puts and calls with the same terms at the same time.

[33] **Switch:** Liquidating an existing position and simultaneously reinstating a position in another futures contract of the same type.

Tender: To offer for delivery against futures.

[9] **Volume:** The number of transactions (one side only) in a contract made during a specified period of time.

Wire house: A firm operating a private wire to its own branch offices, or to other firms, commission houses and brokerage houses over which orders are transmitted.

CME Publications

The following brochures can be obtained by contacting:
Office Services Department,
Chicago Mercantile Exchange,
30 South Wacker Drive,
Chicago, Illinois 60606.
Phone: 312/930-8210.

Physical Commodities

- A Self-Study Guide for Hedging with Livestock Futures
- A Trader's Guide to Livestock Options
- Cash Settlement in Feeder Cattle
- Feeder Cattle Futures & Options Facts
- Frozen Pork Belly Futures & Options Facts
- How to Make Livestock Futures Work for You
- Introduction to Livestock & Meat Fundamentals
- Introduction to Livestock & Meat Options
- Live Cattle Futures & Options Facts
- Live Hog Futures & Options Facts
- Livestock Futures and Options: Contract Terms
- Livestock Hedger's Workbook
- Managing Purchase Prices
- New Certificate of Delivery System in Live Cattle
- Random Length Lumber Futures & Options Facts
- Risk Management Guide for Ag Lenders
- Ten Strategies for Forward Pricing Livestock

Currency-Related Products

- Currency Options Strategy Manual
- Foreign Exchange Markets in the United States
- Using Currency Futures & Options
- Options on Currency Futures: A Strategy Guide
- Opportunities in Currency Trading
- Trading & Hedging with Currency Futures and Options
- Understanding Futures in Foreign Exchange

Interest Rate Products

- An Introduction to Euro-Rate Differential Futures
- Opportunities in Interest Rates
- Options on Eurodollar Futures: A Strategy Guide
- Using Interest Rate Futures & Options
- Yield Calculator: Short-Term Interest Rates

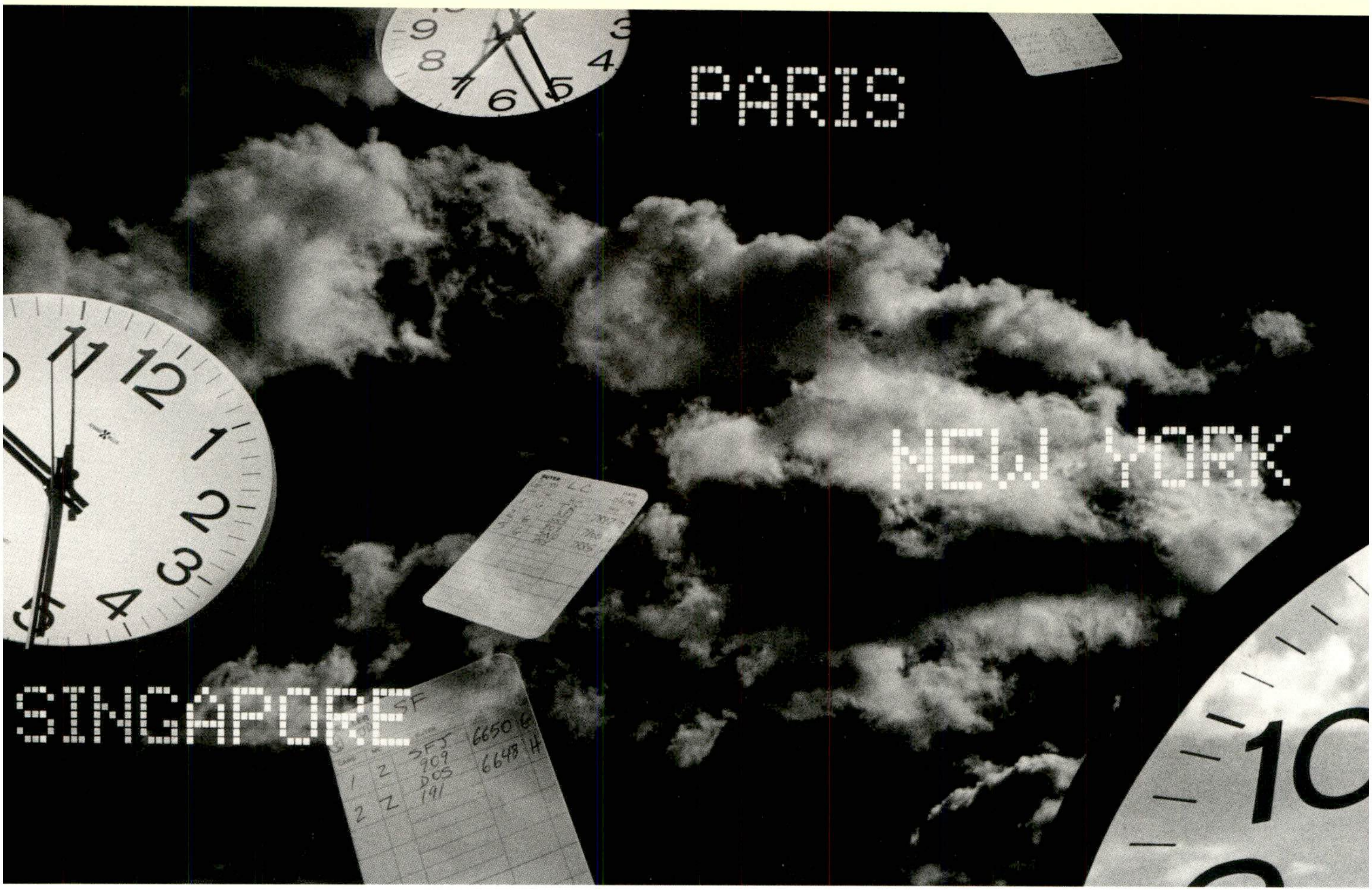
Equity-Related Products

- Opportunities in Stock Index Trading
- Using S&P 500 Stock Index Futures and Options

General Interest

- Bibliography & Information Source List
- CME Sources
- Contract Highlights: CME Futures & Options Facts
- Futures Trading for Financial Institutions: The Regulatory Environment
- Information Guide & Calendar
- MercLine
- The Merc at Work
- Trading in Tomorrows

Design: Liska and Associates, Inc., Chicago, IL
Major Photography: Tim Bieber, Chicago, IL
Cover Photography: Scott Morgan, Venice, CA



CHICAGO MERCANTILE EXCHANGE®
International Monetary Market
Index and Option Market
GLOBEX™

30 South Wacker Drive
Chicago, Illinois 60606
312/930-1000

New York:
67 Wall Street, 10005
212/363-7000

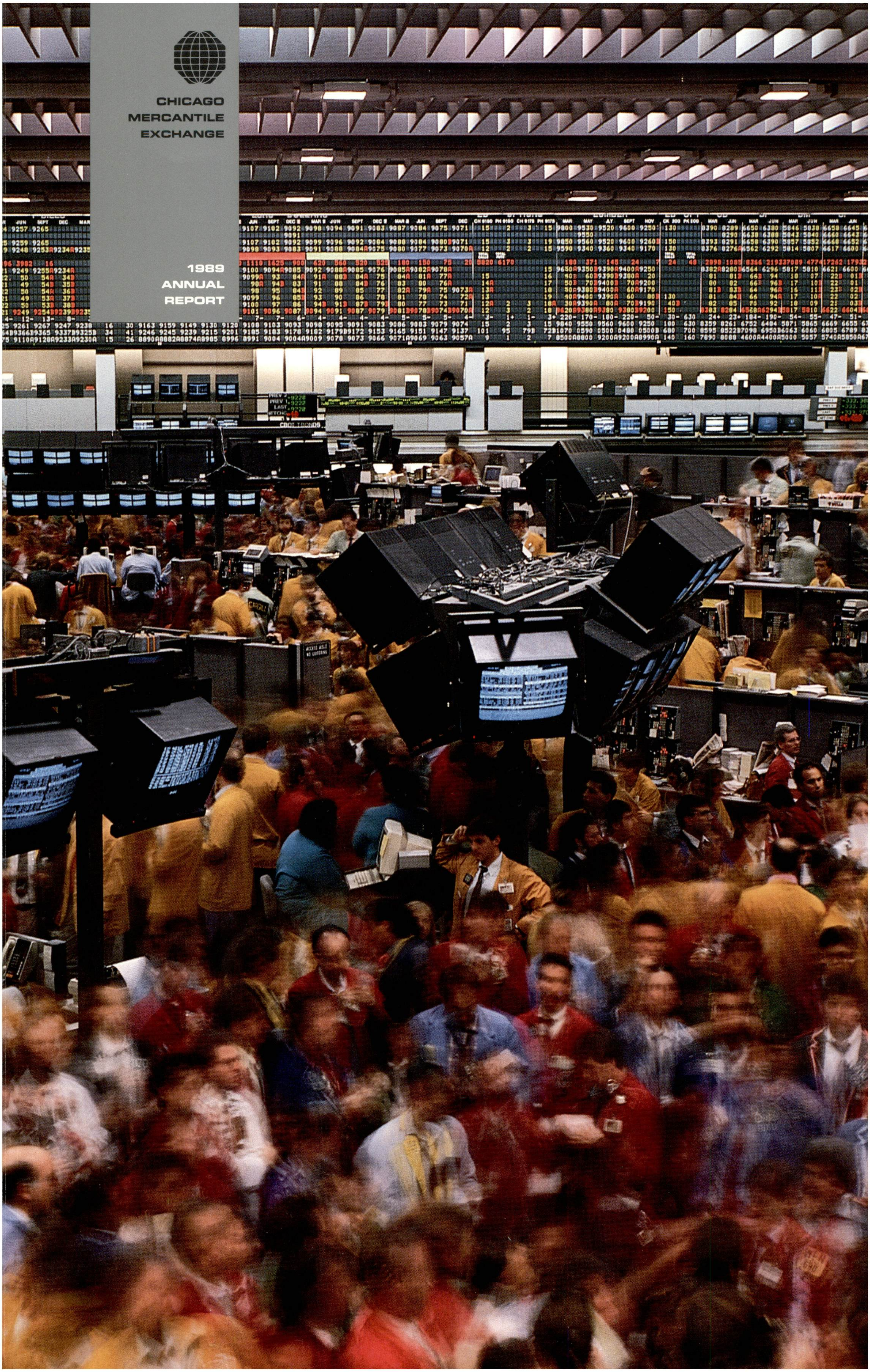
Washington, D.C.:
2000 Pennsylvania Avenue NW, 20006
202/223-6965

London:
27 Throgmorton Street, EC2N 2AN
01/920-0722

Tokyo:
3-3-1 Kasumigaseki, Chiyoda-ku, 100
03/595-2251

CHICAGO
MERCANTILE
EXCHANGE

1989
ANNUAL
REPORT




CHICAGO
MERCANTILE
EXCHANGE

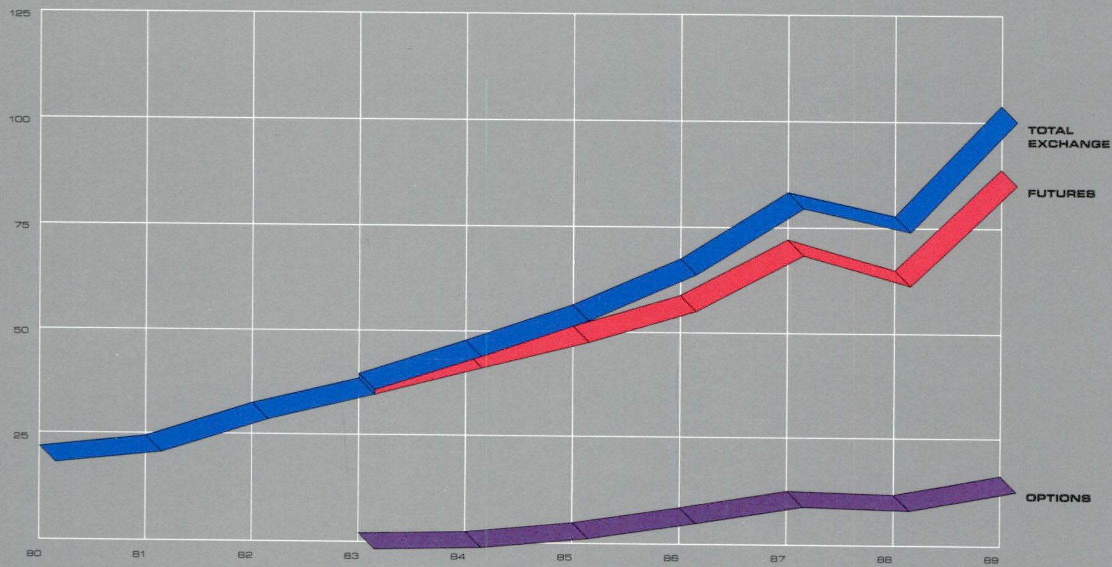
Nineteen eighty-nine was a year of tremendous challenges and tremendous achievements for the Chicago Mercantile Exchange. Exchange trading volume grew by a dramatic 34.2 percent, proof of the integral role our futures and options now play on the world financial stage. We neared completion of preparations for the introduction of GLOBEX, our 24-hour, international electronic trading system. Intensified GLOBEX marketing efforts were greeted with enthusiastic responses from member firms, major international financial institutions and the worldwide trading community.

The scope of these successes becomes even more impressive when considered against the backdrop of media and government scrutiny we endured. Rather than shrink in the face of innuendo and half-truth prompted by a federal probe of our industry, we responded forthrightly and reasonably. We also re-examined ourselves, creating a special committee to formulate rules that will protect the integrity of our markets.

At the same time, we were also testifying in Washington regarding reauthorization of the Commodity Futures Trading Commission, our industry regulator. We demonstrated why self-regulation has worked and will continue to work.

We have met the challenges of the past year, enjoyed the successes and laid the groundwork to cement our leadership role in the international financial community into the 1990s and the 21st century.

10 YEAR CME FUTURES AND OPTIONS VOLUME, YEAR-END TOTALS (IN MILLIONS OF CONTRACTS)



The CME has established, in the latter part of its 70-year history, a solid tradition for innovation matched by just a handful of other organizations. This can be attributed to a number of factors. Of these, foresight, ingenuity, perseverance and plain old-fashioned hard work would appear on any short list—as would good luck. Not to be overlooked is still another important reason: autonomy. Generally speaking, the CME and the industry as a whole have enjoyed, up to now at least, a reasonable measure of freedom from interference. We have been, first and foremost, self-regulators.

Being masters of our own fate was crucial during the early years, for it freed us to focus on improving the product. That is to say, we were able to concentrate the bulk of our efforts on developing more and better contracts and on modernizing our trading floor—our "plant and equipment." Consequently, this spadework enabled us to grow in leaps and bounds. Where in 1960 the CME had 500 members, today we have more than 2,700. As for volume, in just the past five years alone, it has doubled.

AUDIT WILL FOSTER A VIRTUAL OUT-TRADE-FREE ENVIRONMENT AND RESTORE A LEVEL PLAYING FIELD ON WHICH OPEN OUTCRY COULD NO LONGER BE CONSTRUED AS THE TECHNOLOGICAL INFERIOR OF ANY COMPUTERIZED SYSTEM.

ATTRACTING ATTENTION

Despite the growth, the essence of our business hasn't changed from its inception. To this day, it is one of the last bastions of a system which is so elegant in its simplicity that in order for large monetary transactions to be consummated, only a buyer or a seller nods assent and says the word "sold." What has changed in our business is this: As the industry has grown, we have attracted more and more attention, nationally and internationally. This attention—as attention frequently is—has been both a blessing and a curse. A blessing because without it we would not have gained the universal acceptance we now enjoy. With it, however, has come heightened competition, particularly from abroad.

That international competition has grown stiffer than ever can best be illustrated by this fact: Last year, the CME set a volume record (our thirteenth in 14 years); more than 100 million contracts were traded. Yet while volume figures have never looked better, the same cannot be said competitionwise. Worldwide, our market share is down; ours is in effect a smaller piece of a larger pie. In every nation with a major financial center, a futures exchange is either up and running or one is being contemplated.

In the past, the CME has never shrunk from a fight such as this. Similar battles have been fought with relish. But ironically, just as we are gearing up for this new challenge, we may find our hands tied by cumbersome new rules and regulations. Autonomy may be slipping away at just the wrong time. And for what reason? In large part, it seems, because our success in one aspect of the business—developing new and innovative products—has overshadowed significantly the success we have had in modernizing our methods and our floor. That the former could not have been realized without the latter appears to have been lost on some of our critics. History, however, is clear on this point.

A TRADITION OF SELF-REGULATION

For 48 years, Washington oversight of the futures exchanges was the responsibil-

For much of 1989 self-regulation was attacked and misrepresented, but never really adequately defined. To many, self-regulation means little beyond the rules and investigative bodies of the CME. But real self-regulation begins even earlier, with individual members.

JOHN T. GELDERMANN
Chairman of The Board of Governors

ity of the Commodity Exchange Authority, a small branch of the U.S. Department of Agriculture. That changed in 1975, when the Commodity Exchange Act was rewritten and the Commodity Futures Trading Commission (CFTC) became the industry's permanent oversight agency. Naturally, with the establishment of the CFTC came new requirements. Even so, self-regulation was hardly swept away. In fact, the Commodity Exchange Act, as revised by Congress, authorized the CFTC to promulgate rules that would largely preserve the industry's and the exchanges' self-regulating role.

Over the next 15 years, this system functioned exceedingly well. Then came an unhappy coincidence. In January 1989, just as the Congress was preparing to reauthorize the CFTC, there came word of an FBI investigation of the futures industry. Suddenly, though only a handful of individuals were actually indicted, our ability to regulate ourselves was called into question. Many argued that we lagged in automation.

THE PAST 10 YEARS HAVE HAD A PROFOUND IMPACT ON OUR INDUSTRY. WE HAVE ADAPTED AND PROSPERED BECAUSE HISTORICALLY WE HAVE ENJOYED THE LATITUDE TO INNOVATE.

For much of 1989, self-regulation was attacked and misrepresented, but never really adequately defined. To many, self-regulation means little beyond the rules and investigative bodies of the CME. But real self-regulation begins even earlier, with individual members. In an ideal world, it would need go no further. At present, however, the world is not quite ideal. Mindful of this, we have instituted some reforms that will give our members, as self-regulators, new tools.

Through the use of a computer, any member will now be able to access complete records of each and every transaction from a previous day. Also, we have made our disciplinary committees smaller, more efficient and more open. Henceforth, each of these panels will include an outside individual with expertise in futures.

A "PAPERLESS" TRAIL

Chicago exchanges have long been in the vanguard of automation. Computerized trading records are just the latest of a string of innovations that extends back to the advent of the first computerized clearing house in 1963. Soon thereafter came the automated bookkeeping systems that would allow unlimited growth. By the early seventies, well before the personal computer existed in any meaningful form, quotation services were computerized and electronic boards came to the trading floor.

In the late seventies, the CFTC began to emphasize timing of trades. Initially we could place trades to within an hour, next to a half hour and finally to within 15 minutes. In the early eighties, computerized trade reconstruction (CTR) was introduced. With up to 85 percent accuracy, this system can now verify trade times to within a minute.

Next up will be the era of the "paperless trail," the quest for which began in earnest last year, when we deployed TOPS (Trade Order Processing System), phase one of our trading floor automation process. TOPS, which originates directly with a member firm's account executive, allows incoming orders to be keyed into an "upstairs" computer. Then, once it has been checked for accuracy, the order is transmitted directly to the appropriate trading-floor booth. From there, orders are sent to the pit, filled and returned. When the booth clerk enters the execution information into TOPS, all data is matched, verified and routed back to the account executive, whereupon the customer receives order confirmation.

CUBS (CME Universal Broker Station), our next generation of technological innovation, waits in the wings. Its chief purpose is to get the orders from the account executive to the very edge of the pit as quickly as possible. As presently conceived, the CUBS terminal will display orders that have been routed to a work station by TOPS. A CUBS prototype capable of supporting an automated trade deck should be operational late in the second quarter of 1990.

Ultimately, CUBS technology would be capable of supporting the most exciting of all technological planning to date, the AUDIT (Automated Data Input Terminal) hand-held terminal.

Several months ago, the AUDIT project was unveiled jointly by the CME and the Chicago Board of Trade. Now, it is well underway. As envisioned, early units would be employed by local traders. They could also be used by brokers according to their individual preferences. Next generation models, designed specifically for brokers, would have order management and execution functions as well.

AUDIT will foster a virtual out-trade-free environment. Because trade matching will transpire within seconds, if the computer were to fail to get a match, each trading party would receive notification of an out-trade within a minute or two. AUDIT would also restore a level playing field; open outcry could no longer be construed as the technological inferior of any computerized system. All of which suggests that time spent learning to use this device would be of small consequence compared to the benefits derived.

Our present schedule calls for actual prototype testing in the third quarter of 1990. This means that actual production units could be available by the end of 1991.

CLEARING THE HURDLES

The past 10 years have had a profound impact on our industry. Tax reform, the loss of fixed commissions, new capital gains treatment and Black Monday in 1987 are just a few of the hurdles that we have cleared. And through it all, while the essence of our business has remained precisely the same, many of the particulars have changed.

We have adapted to each of these changes—and we have prospered—because historically we have enjoyed the latitude to innovate. Now, with even bigger challenges ahead, our ability to compete in the nineties is being called into question.

I, for one, am confident that just as we have long since made the transition from green eye shades and chalk boards to the cutting edge of computer technology, we will beat back this challenge too. And in the end, we will triumph as we always have: by laying out the facts, soberly and rationally, and letting the historical record speak for itself.

John T Geldermann

John T. Geldermann, Chairman of The Board of Governors

From each year, whether it has been a successful one or not, there are lessons to be learned. A case in point is 1988. It wasn't the best of years. In fact, due to fallout from the 1987 stock market crash, it was a particularly trying one. Still, from 1988 we learned again the importance of expecting the unexpected.

Each year poses its share of known challenges, and 1989 was no exception. GLOBEX, for example, was nearing its initial deployment phase and we needed to attend to numerous details. The Commodity Futures Trading Commission (CFTC) was due to be reauthorized by Congress in 1989. And, there were long-range plans to be made. We had to consider growing global competition throughout the financial marketplace.

These were the issues we could identify for 1989, but, as in the past, there were to be a few unforseen twists and turns in our agenda.

In mid-January came disclosure that the FBI had for some time been conducting a covert investigation of the futures industry. It was clear to us that the probe's impact on the integrity of this exchange as viewed by our customers would be of paramount importance. Also of great concern was how it would affect our members and our firms. Naturally, its ramifications regarding CFTC reauthorization had to be weighed.

While 1989, in retrospect, provided some very arduous and continuing challenges, it was also a year of many bright accomplishments.

FOR THE FIRST TIME IN OUR HISTORY WE TRADED MORE THAN 100 MILLION CONTRACTS. WE NOW COMMAND 32 PERCENT OF THE DOMESTIC MARKET SHARE, COMPARED TO 26 PERCENT AT THE END OF 1979.

THE YEAR IN STATISTICS

From a disappointing 1988, volume bounced back stronger than ever in 1989. In fact, for the first time in our history, we traded more than 100 million contracts. To be exact, 104,654,457 contracts changed hands, an increase of 34.2 percent over 1988.

The biggest numbers of all were posted in the interest rate sector, where 40.8 million Eurodollar contracts were traded, an increase of 88.1 percent. Currencies, too, were strong. Deutsche mark futures, at almost 8.2 million, rose 44.6 percent; Japanese yen futures were up almost 22 percent to slightly more than 7.8 million; and Swiss franc futures, finishing just under 6.1 million, were up 15.3 percent.

Options also posted healthy 1989 gains. Eurodollar options jumped 130.8 percent, edging just past six million; Deutsche marks rose 38.8 percent to approximately 3.8 million; and Japanese yen, with a more moderate 6.2 percent gain, finished at 3.1 million.

Financially, the Exchange again ended the year solidly, posting an operating profit of $17 million. Clearing fees increased from 1988, and quotation vendor fees grew as well. Members' equity grew by $5.4 million. These excellent results also made it possible for us to make a contribution of $8 million to the Chicago Mercantile Exchange Trust.

Looking ahead, just as open interest was a harbinger of good news at the end of 1988, the same appears to be true again. At year's end, aggregate Exchange open interest was up 17.3 percent to nearly 1.75 million contracts—the largest open-interest total in the industry.

As a result of the Committee's deliberations, the Board of Governors adopted a comprehensive package of rule changes. These reforms are intended to guarantee continued protection to every member of the trading public. We will continue to implement these measures throughout 1990.

WILLIAM J. BRODSKY
President and Chief Executive Officer

At year end, the CME posted still another record. December deliveries of 113,771 foreign currency futures contracts were made, culminating in a record $9.2 billion settlement. The previous mark, $9.1 billion, was set in June 1989.

CFTC REAUTHORIZATION

Though we devoted much of the year to CFTC reauthorization, complete resolution from the Congress had not been realized at year's end.

Through most of the year, we worked steadfastly to eliminate some of the onerous features included in the House version of reauthorization legislation. Finally, on September 13, that bill passed the full House unanimously.

JUST AS WE HAVE IN THE PAST, WE MUST CONTINUE TO STRENGTHEN OUR MARKETS AND MAKE OUR TRADING SYSTEMS BETTER, FASTER AND MORE EFFICIENT.

The Senate reauthorization legislation, the Leahy-Lugar bill, did not emerge from the Agriculture Committee until November 2. What's more, due to a last-minute sticking point—a surprise amendment offered by Sen. Slade Gorton (R-WA) that would cede jurisdiction over stock index futures to the SEC—no full Senate vote occurred in 1989. Our labors, though, were not wasted. We worked closely with key members of the Senate Agriculture Committee staff to effect substantial modifications of an earlier bill that we felt was not acceptable. Therefore, when the matter has been resolved once and for all, we should have a bill that is far more reasonable than it might have been, particularly considering the extenuating circumstances.

On the other hand, in the aftermath of a federal court decision that gave the CFTC regulatory control over a newly-developed financial instrument called a Stock Index Participation, some in the securities industry now suggest that Congress ought to reconsider the whole question of SEC/CFTC jurisdiction. This debate will be a 1990 challenge, one which will necessitate much additional Chicago-Washington commuting.

ELSEWHERE IN WASHINGTON

Elsewhere in Washington, we did make headway. In September, the CFTC and SEC jointly approved a cross-margining agreement for broad-based equity-index options, futures, and options on futures. This CME-Options Clearing Corporation (OCC) pact should improve the overall financial integrity of the clearing system, even as it reduces costs for clearing members. The new system will also promote better cash flow and provide a markedly more accurate picture of the true risk of intermarket positions.

Also submitted for CFTC approval was a new large order execution rule, approved by the CME Board of Governors in September. Comparable to block trading rules on the major securities exchanges, it would eliminate a concern now faced by institutional investors—namely, that they might not be able to execute all of a large order at a given price, by permitting a member firm with a large order to look outside the pit for a counterparty. Yet, it will still expose the order to the trading pit to ensure that the customer receives the best possible competitively determined price.

THE INVESTIGATION

Once the FBI investigation was announced, we recognized that an early consequence would be the heightened interest from Capitol Hill that it was sure to attract. As for the long term, we knew almost immediately that this would likely be the most serious challenge we had faced to date. So, we appointed a Special Committee to Review Trading Practices. Further, we instructed this panel to hold nothing back for two reasons: 1) we wanted to know where enhancements to our current procedures were necessary; and 2) investor confidence was of utmost importance.

In August, as a result of the Committee's deliberations, the Board of Governors adopted a comprehensive package of rule changes. These reforms, which are summarized elsewhere in this report, are intended to guarantee continued protection to every member of the trading public. We will continue to implement these measures throughout 1990.

On the latter score—investor confidence—the volume numbers are particularly heartening. They amount, it would seem, to a resounding vote of confidence.

BACK TO THE FIELD OF INTERNATIONAL COMPETITION

If we did not achieve all that we had hoped to in Washington, we certainly did in London. There, the British government cleared the way in August for installation of GLOBEX terminals. Some 50 terminals are to be installed at CME member-firm sites in London. Eventually, at least 900 will be situated around the world.

In Paris, the MATIF officially became a GLOBEX partner exchange in early November. MATIF, Europe's leading exchange for futures and options, is the first of the world's leading exchanges to join the GLOBEX system. Meanwhile, here in Chicago, negotiations with the Board of Trade (CBOT) that would unify GLOBEX and Aurora, the CBOT's proposed after-hours system, continued.

As we closed out the eighties, I admit that we were pleased with our accomplishments. We now command some 32 percent of the domestic industry market share while at the end of 1979 our market share was 26 percent. Our Eurodollar contract is the industry pacesetter in terms of open interest and, with the launch of GLOBEX imminent, we are seemingly well positioned for the future. Yet, we are only too aware that in the nineties, the industry will be more international in scope—and therefore more competitive—than it has ever been.

All of which means that while we at the CME can certainly derive satisfaction from what we have heretofore accomplished, there will be no resting on our laurels. Instead, just as we have in the past, we must continue to strengthen our markets and make our trading systems better, faster and more efficient, thereby making them more attractive to the many participants in this increasingly competitive global financial marketplace.

William J Brodsky

William J. Brodsky, President and Chief Executive Officer

Several years ago, Nobel laureate Milton Friedman advanced a thought that bears repeating as we stand poised on the dawn of a new decade. Speaking at the International Monetary Market's 10th anniversary dinner in 1982, Friedman said: "There is nothing more unrealistic than to suppose the way to judge the future is to look at the past." That insightful maxim could well serve as the motto for our Exchange and our entire industry. Indeed, a mere decade ago, the past gave little indication of what our future held.

LOOKING BACK: A DECADE OF INNOVATION, ACCEPTANCE AND GROWTH

THE SEEDS OF OUR SUCCESS IN THE 1990s WERE SOWED IN THE DECADE JUST ENDING. SPECIFICALLY, WE BELIEVE THAT GLOBEX HOLDS THE CENTRAL INGREDIENTS FOR THE COMING YEARS.

In 1979, financial futures, in the form of our first foreign currency contracts, were just leaving their infancy, slowly but surely gaining the attention of the established world financial community. But, at that time, we were still very much a commodity exchange, our fortunes tied to the soil and the American rancher and farmer.

The CME Annual Report spoke of a new broiler-chicken contract and revised egg and potato contracts. The Live Cattle contract was king that year, trading an unheard of 7.2 million contracts, more than the entire Exchange had recorded only three years earlier. The meat complex accounted for 11.5 million of the 19.9 million contracts traded.

Fortunately, we did not choose to sit back and enjoy our success, nor judge the future by looking at the past. For the world around us was changing rapidly. It had experienced a decade of financial turmoil unlike anything seen before. Inflation, energy costs, changing values between currencies, double-digit interest rates and extreme swings in commodity prices joined forces to create a business climate wrought with danger and fear. Even the most astute business planners had little idea what to expect in the 1980s.

If the 1970s was the decade that gave birth to financial futures, then the 1980s was clearly the decade in which they came of age. The result was a consequence of three interdependent influences: innovation, acceptance and growth.

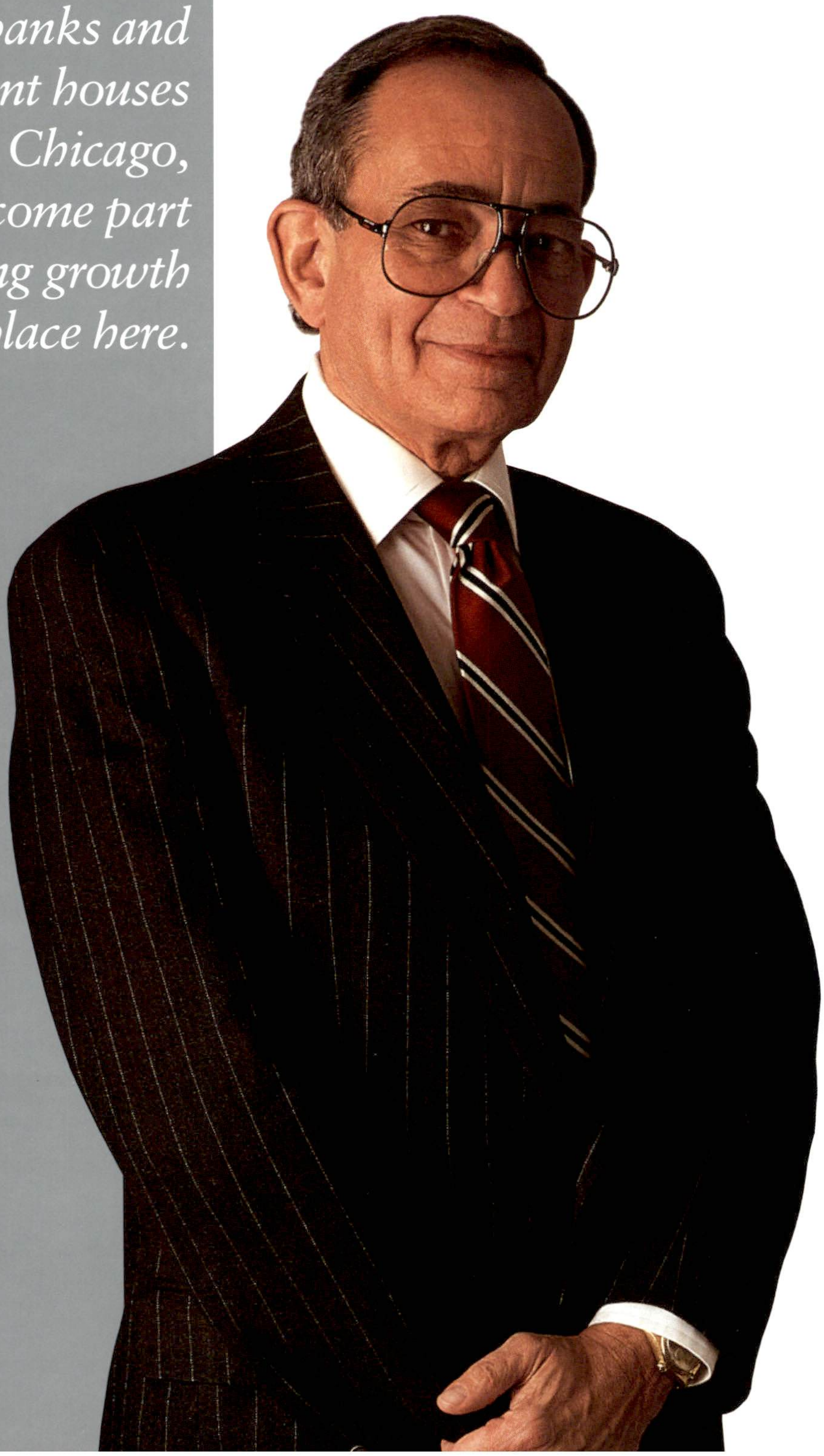
Unquestionably, the increasing acceptance of financial futures as a legitimate instrument of finance caused a continuous—and often phenomenal—pattern of growth. When superimposed on the financial chaos of the 1970s, it also resulted in a rush to create a wide range of new risk management tools. Secretary of Agriculture Clayton Yeutter, then president of the CME, summed it up well when he wrote in the 1979 CME Annual Report that "it's a volatile world."

Providing the tools for financial risk management became the business of the '80s. New contracts proliferated as every exchange became a player, but the CME benefited most. The IMM currency markets were on a consistent growth track. The Eurodollar contract, which debuted in 1981, was destined to become a phenomenal success and arguably this industry's most successful contract. The IOM stock index futures contract followed and gained an immediate acceptance among equity investors and mangers. The arrival of options on futures opened up an entirely new dimension for our markets and provided a new universe of users and participants.

Thus, in the '80s, the CME was transformed from a regional commodity exchange to a world financial center. We also became the leader of innovation and the hub

In the '80s the CME was transformed from a regional commodity exchange to a world financial center. We became the leader of innovation and the hub of financial activity in the United States. Foreign banks and investment houses flocked to Chicago, eager to become part of the exciting growth taking place here.

LEO MELAMED
Chairman of the Executive Committee and Special Counsel to The Board of Governors



of financial activity in the United States. Foreign banks and investment houses flocked to Chicago, eager to become part of the exciting growth taking place here. Financial futures and options—whether in the form of currency, interest rate or stock index contracts—became an accepted financial tool in the arsenal of risk management. And the benefits to the CME were impressive. Exchange volume stood just shy of 20 million contracts in 1979. By 1989, volume in Eurodollar futures alone was twice that level and total Exchange volume topped the 100 million contract mark for the first time.

As the decade ends, few could doubt that financial futures are here to stay. Indeed, Merton H. Miller, PhD., Professor of Banking and Finance, University of Chicago, named financial futures as "the most significant financial innovation of the last twenty years." The world agreed. Chicago had taken its place among the prominent world financial centers. Moreover, new financial futures exchanges have opened or been announced in London, Paris, Hong Kong, Sydney, Toronto, Singapore, New Zealand, Brazil, Osaka, Zurich, Dublin, Frankfurt and Tokyo.

FUTURES MARKETS ARE INTEGRAL AND INDISPENSABLE TO THE CONTINUED SUCCESS OF THE AMERICAN FINANCIAL SYSTEM. THE CME EPITOMIZES THE FREE MARKET.

LOOKING AHEAD: GLOBEX AND THE NEW WORLD

Will the 1990s see a repeat of new contract innovation that characterized the 1980s? I doubt it. To assume this would be to ignore Dr. Friedman's advice.

Nevertheless, we must not forget that each decade is a product of the one that preceded it. Just as we can trace our success in the 1980s to the groundwork we laid the decade before, we believe that the seeds of our success in the 1990s were sowed in the decade just ending. Specifically, we believe that GLOBEX holds the central ingredients for the coming years.

It is, by now, a cliche to explain that sophisticated satellites, microchips and fiber optics changed the world from a confederation of autonomous financial markets into one continuous marketplace. And, as world economies become increasingly intertwined, 24-hour trading becomes not just a vision but a necessity.

We recognized the changing shape of the world economy early in the '80s. Our London office opened in 1980 and with it we gained a threshold to European and Middle Eastern business. Ultimately, it resulted in a better than 30 percent flow of business from foreign shores. We also began forging links with the vibrant Pacific Basin. In 1984, we established our trading link with the Singapore International Monetary Exchange (SIMEX), the world's first mutual offset link between futures exchanges. Two years later, we announced plans for a Tokyo office and initiated a major program for our Japanese presence.

Clearly, the foregoing steps represented the road that ultimately led to GLOBEX. Indeed, GLOBEX was the logical extension of the financial futures revolution and represented some fundamental principles that are a dramatic departure from the past and bound to direct CME destiny in the 1990s.

First, GLOBEX permanently embraces the reality that the present trading day does not stop when the sun sets in Chicago. Unless we provide foreign users with continuous access to our own markets, they will utilize replicas of CME contracts on foreign futures exchanges. GLOBEX is designed to enable the CME to protect its market share. Second, GLOBEX recognizes that to preserve the system of open outcry, we must enhance its capabilities by integrating it with technological advancements. GLOBEX does just that. Third, GLOBEX accepts the fact that globalization is upon us; that to remain competitive we must facilitate the flow of international business. GLOBEX boldly envisions a global network with other world exchanges. Finally, GLOBEX introduces the revolutionary concept of direct member revenue participation.

While the foregoing represents labors of the present decade that anticipated our needs in the next, much of what will happen in 1990s, as Milton Friedman suggests, cannot be predicted. This year's dramatic events in Eastern Europe give compelling testimony to the unpredictable nature of mankind. Indeed, these recent events will offer opportunities and challenges for which we are yet unprepared.

It is imperative to fully appreciate the profound meaning of the Eastern European revolution. This reformation, this unshackling of tyrannical rule that produced an economic disaster for its enslaved populations, is the result of one basic truth of fundamental importance to our institution: A market-driven economy is the finest economic structure ever devised by mankind. It is the only economic system capable of providing an acceptable standard of living for its population.

The significance of this axiomatic economic principle cannot and must not be underestimated. Futures markets are integral and indispensable to the continued success of the American financial system. The CME epitomizes the free market. Indeed, futures exchanges, in concomitance with securities exchanges, represent the quintessence of a market-driven economy; i.e., mechanisms to discover prices, not by virtue of governmental edict, but as a consequence of the unencumbered forces of supply and demand.

These mechanisms are precious and holy. Their successful operation is grounded in the precept of a profit incentive and is highly dependant on the correct balance between government oversight and self-regulation. Too much of one factor over the other and the American economic success story can be undone. This peril is especially menacing in the current U.S. environment that has so many seeking a higher degree of governmental control over financial and business processes.

Having achieved conclusive validation that the American economic order is far superior to ones directed by the heavy hand of government, we must be especially vigilant to preserve and protect it. Pray, let us not allow defeat to be snatched from the jaws of victory.

Leo Melamed, Chairman of the Executive Committee and
Special Counsel to The Board of Governors

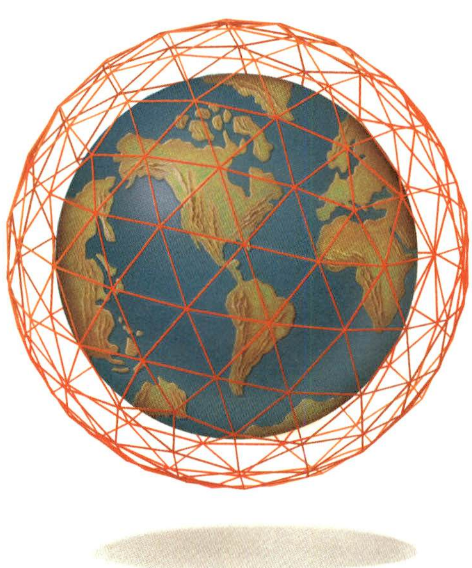
Success is not always easily won. The Chicago Mercantile Exchange recognizes that a challenge is but an opportunity not yet fully realized. The events of 1989 could easily have overwhelmed a lesser institution, but the CME is a dynamic, forward-thinking organization with a history born of challenge. In the course of this year of unprecedented, sometimes unsettling events, the CME maintained its legacy of contribution to an industry, a city and to a changing new world. What follows are corporate highlights of 1989.

MACROECONOMICS EMBRACE THE MICROCHIP

The CME, as a general partner of the P-M-T Limited Partnership (P-M-T), and Reuters Holdings PLC saw their plans for an automated after-hours trading system progress significantly in 1989.

Events throughout the year reflected the truly global nature of the system, beginning Feb. 2, when the Commodity Futures Trading Commission (CFTC) approved the CME's plans to implement GLOBEX in the United States. Less than one month later, on March 1, the Marche a Terme International de France (MATIF) announced its intention to make the French futures market the first European partner exchange. This agreement was formalized by year's end and the government of France appeared ready to offer its approval of GLOBEX in that country.

AS OFFICIALS AND POLICYMAKERS CONTINUED BUILDING THE GLOBEX REGULATORY AND OPERATIONAL SUPERSTRUCTURE, THE NUTS AND BOLTS OF THE SYSTEM ALSO WERE BEING PUT INTO PLACE.



British government officials had earlier approved the installation of GLOBEX terminals in the U.K., stating that GLOBEX would "bring to London the advantages of electronic out-of-hours trading, offering U.K. investors an important increase in the range of choice available to them." At year's end, the CME was enjoying the support of the U.S. Treasury department in discussions with the Japanese Ministry of Finance to facilitate the installation of GLOBEX terminals in Japan for CME member firms.

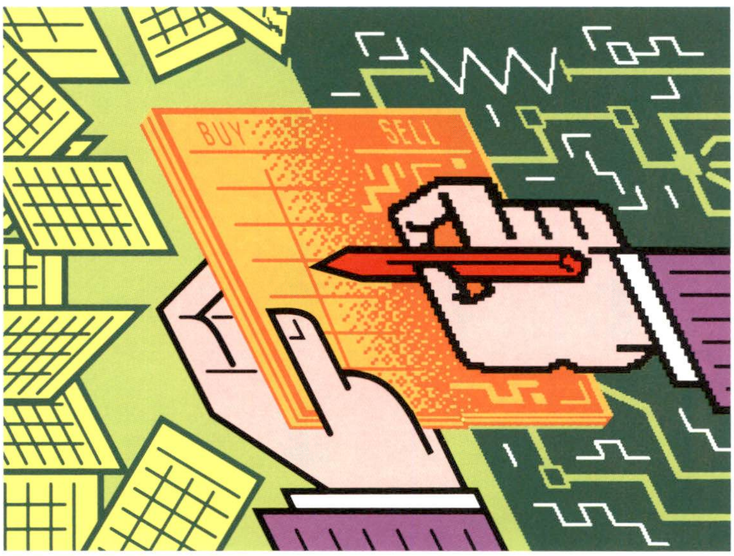
As officials and policy makers continued building the GLOBEX regulatory and operational superstructure, the nuts and bolts of the system also were being put into place. Nearly 270 GLOBEX terminals were ordered for CME member firms and client offices in London, Chicago, New York and other U.S. cities. More than 100 locations have been wired for GLOBEX and stand ready to go into operation. Roughly 1,100 CME members and member firm employees have received training from Reuters and the CME. Also, during the annual Futures Industry Association conference in March in Boca Raton, Florida, CME Executive Committee Chairman Leo Melamed was named chairman of GLOBEX.

Mutual concerns and a common interest in the good of the investing public brought the CME and the Chicago

Board of Trade (CBOT) together on a number of projects, including GLOBEX. The two exchanges have begun talks to unify their automated trading systems.

TRADING UP THROUGH TECHNOLOGY

The impact of new technology, most prominently recognized in GLOBEX, has also made its presence felt internally. The ongoing development of a state-of-the-art electronic audit system took some significant leaps in 1989, underscoring the commitment of the CME to maintain the most efficient markets possible.



The CME's Trade Order Processing System (TOPS) was implemented in a pilot program in February, with various expansions occurring throughout the year. Designed to speed customer orders to the trading pits, TOPS enables a clearing member's account executive to enter an order directly onto a computer screen. The order is then transmitted to the trading floor where it is printed and given to a runner for transmission into the pit. Once the order is filled, a booth clerk enters the information into CME-TOPS which then matches the fill information with the original order and routes a fill report back to the account executive.

The efficiency and economy of TOPS will be further enhanced by additional elements such as the CME's CUBS (CME Universal Broker Station) automated order terminals. Speaking in London in June, CME Chairman John T. Geldermann explained that the purpose of CUBS "is to reduce the time it takes to get orders from the order originator and/or booth to the order filler in the pit."

The CME and the CBOT announced in August that they are pledging an initial investment of $5 million to develop the AUDIT hand-held trading device. AUDIT (Automated Data Input Terminal) will permit the computerized recordation of trade information as each trade occurs. The system will facilitate automatic time recording of trades, complete recording of all transactions and the timely transfer of this information to the Exchange's clearing, surveillance and compliance systems.

Together, these systems are designed to insure the efficiency of open outcry trading while realizing high new standards of accountability.

THE CME'S NEW AUDIT SYSTEMS WILL INSURE THE EFFICIENCY OF OPEN OUTCRY TRADING WHILE REALIZING HIGH NEW STANDARDS OF ACCOUNTABILITY.

DESIGNS ON THE FUTURE

The configuration of the trading floor is as dynamic as the markets themselves and 1989 was nothing if not dynamic. Floor changes were made throughout the year, some quite noticeable, some rather subtle. The most extensive reconfiguration occurred in the interest rate quadrant, where Eurodollar volume was more than 100 percent above 1988 levels. Eurodollar front-month space was increased by 77 percent; second month, 47 percent; and back months 101 percent. Overall, the trading floor now boasts an additional 1,100 square feet of trading space and nearly 80 new arbitrage booths.

AN OUTSTANDING RESPONSE TO A STANDING INVITATION

The markets of the CME represent the markets of the world. During 1989, nearly 100,000 visitors witnessed open outcry trading from the CME Visitors Gallery. Foreign visitors made up roughly 30 percent of registered visitors this year, a strong indicator of the CME's increasingly international profile. Visitors included U.S. Commerce Secretary Robert Mosbacher, members of the Italian Chamber of Deputies, the Japanese Diet and top-level Soviet banking officials.

U.S. COMMERCE SECRETARY ROBERT MOSBACHER (CENTER) TOURS THE CME TRADING FLOOR WITH CME CHAIRMAN JOHN T. GELDERMANN (LEFT) AND CME EXECUTIVE COMMITTEE CHAIRMAN AND SPECIAL COUNSEL TO THE BOARD LEO MELAMED.

SYMPOSIUMS CHART INTERNATIONAL COURSE

The CME's annual International Financial Symposium has for five years drawn the world's most respected financial experts to London. As the decade neared its close, the 1989 London conference, "Global Financial Markets in the 1990s," Nov. 9, examined the restructuring of the European market, emerging Pacific economies and the regulatory and political impact of internationalization on national trade policies, all to a standing room only crowd.

The importance of the nations of the Pacific Rim in the economy of the coming decade was recognized earlier in the year when the CME conducted its first annual international symposium in Tokyo, May 30-31. "The Financial Markets in the 1990s: Views from the East and West" was designed to complement the London symposium and offered an equally impressive list of world financial authorities. Growing interdependence among international financial centers was examined from points of technology to diplomacy. The CME's annual Tokyo symposium will undoubtedly play an increasingly important role as the new decade demands more global economic cooperation than has ever before been required.

The past year was one of intense examination of the futures industry both from without—in the form of a government probe of trading practices and in Commodity Futures Trading Commission reauthorization hearings—and from within, as we acted to ensure the integrity of our markets.

In August, the Board of Governors of the Chicago Mercantile Exchange approved a comprehensive set of trading rule and surveillance enhancements to guarantee the continued protection of public customers who transact business through the Exchange. Chief among the comprehensive CME package of reforms are:

1. *Strict sanctions against trading violations, including new guidelines for disciplinary sanctions which require expulsion after a second major rule violation.*
2. *A stepped-up system which will utilize electronic surveillance technology.*
3. *A full trade data recap available to members on a next-day basis to encourage and facilitate self-policing by Exchange members.*
4. *Appointment of non-members to all major disciplinary committees.*
5. *Required attendance at a CME Ethics and Education Program for all new and existing members.*
6. *Further restrictions on the trading activity within broker associations.*
7. *Further enhancements of the CME's computerized trade reconstruction (CTR) system to include separate time brackets for market openings and closes.*

The enhancements resulted from a careful and lengthy process begun in January by a CME Special Committee to Review Trading Practices. While the committee grew out of revelations of possible trading abuses at several U.S. futures exchanges, it should be noted that the CME has constantly reviewed its rules and enforcement procedures. The Special Committee, then, was not a radical break with CME tradition. Rather, it served to emphasize the Exchange's ongoing commitment to maintaining equitable and honest markets.

A further sign of this commitment was the composition of the Special Committee. A majority of the panel, six members, were non-CME officials able to provide needed public insight into our policies and procedures. Four CME officials rounded out the committee.

The Special Committee's recommendations, issued in April, were reviewed and refined by six internal committees made up of CME members. The internal committee reports, which substantially upheld the Special Committee's recommendations, were then submitted to the CME Board of Governors.

Do these changes represent the last word in CME efforts? Definitely not. Exchange efforts to maintain fair and open markets are an ongoing and integral activity.

To cite examples of our seriousness regarding these matters, during 1987 and 1988, our internal surveillance system opened 260 trade practice investigations and successfully prosecuted 188 individuals.

To preserve our right to self-regulate, we will demonstrate that we can regularly detect and prosecute abuses of every magnitude.

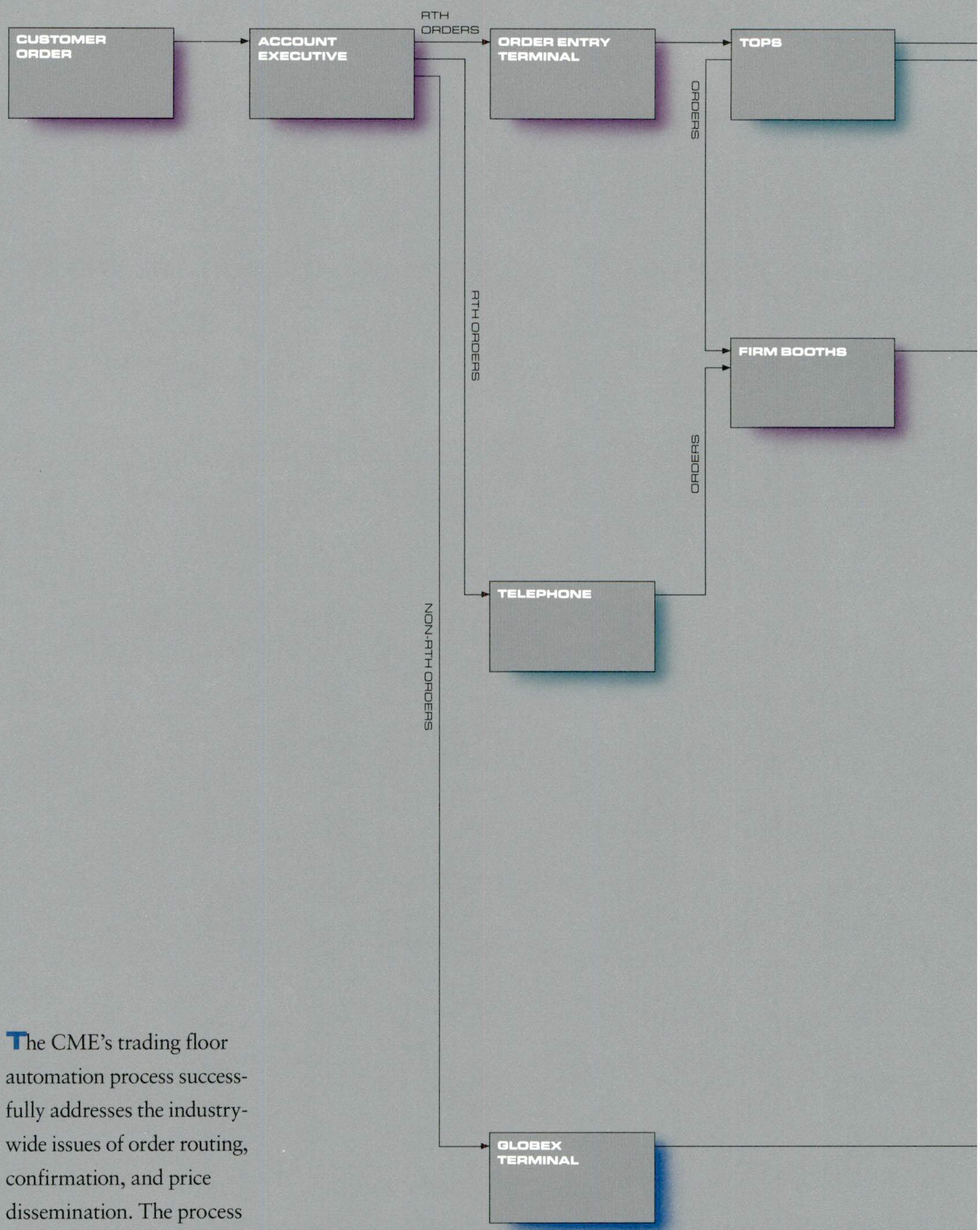
Toward this goal, we have made a $5 million commitment in cooperation with the Chicago Board of Trade to develop a state-of-the-art, electronic, hand-held terminal for the purpose of real-time recording of each transaction. The new terminal, dubbed AUDIT, in conjunction with the CME package of rule reforms, will provide us with an unparalleled audit trail and surveillance system.

Also, we were frequent and vigorous witnesses in Washington throughout 1989, explaining why self-regulation is working.

The CFTC reauthorization process was not completed in 1989. A bill was approved by the House of Representatives. A Senate committee voted unanimously for a different version of the reauthorization legislation. The language of the Congressional measures is tough but fair.

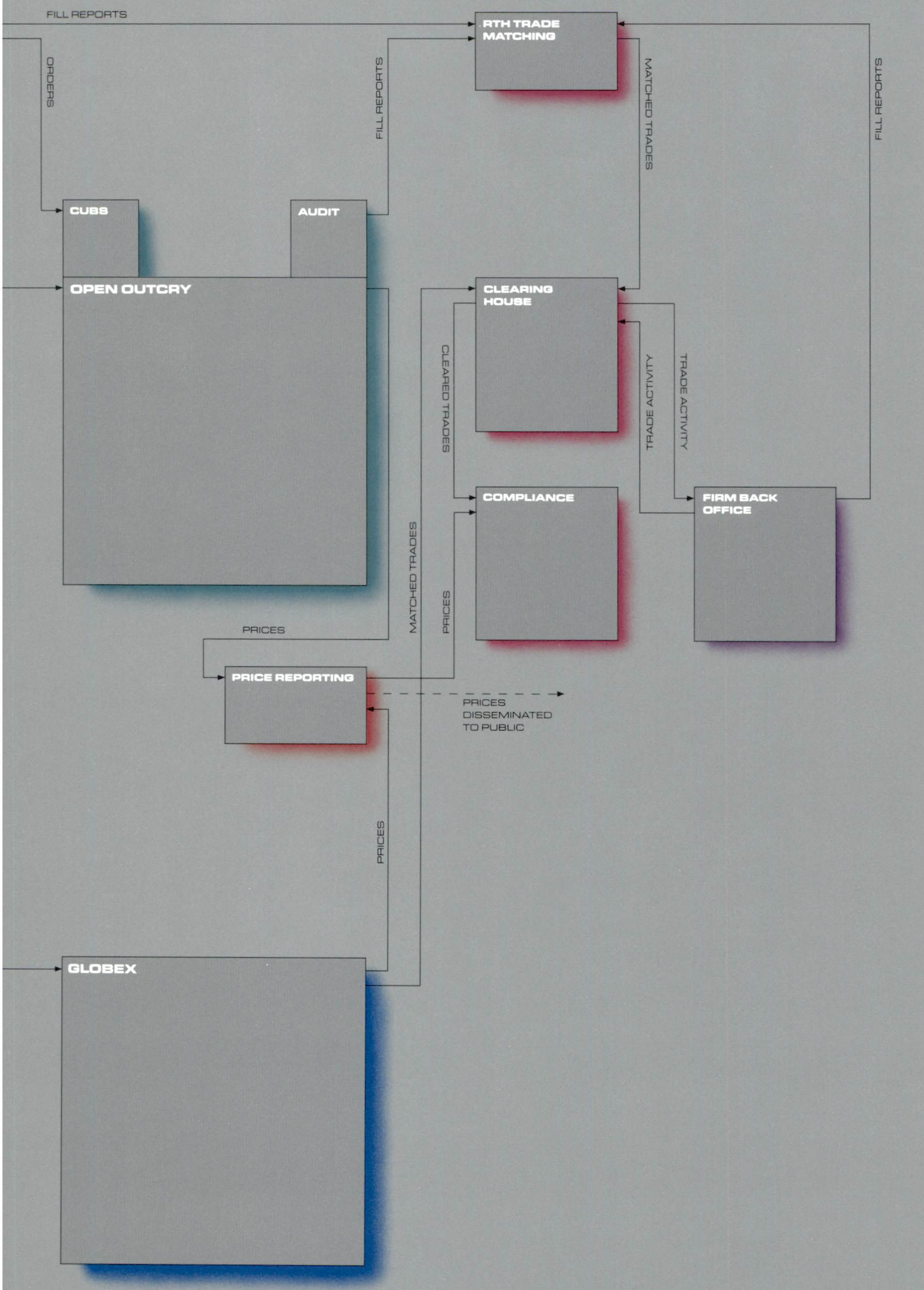
We will continue our educational mission in Washington in 1990, seeing the CFTC reauthorization process through to its conclusion.

And we will continue to vigorously seek out and punish any violations of our rules that impinge on the integrity of our Exchange.



The CME's trading floor automation process successfully addresses the industry-wide issues of order routing, confirmation, and price dissemination. The process comprises computerized systems that fit together, work together and overlap to provide Exchange customers with the quickest, most accurate trading process in a virtually error-free environment.

Encompassing both regular and non-regular trading hours, the systems will ensure a highly streamlined order process with the lowest possible risk to market users.


FILL REPORTS
ORDERS
RTH TRADE MATCHING
FILL REPORTS
MATCHED TRADES
FILL REPORTS
CUBS
AUDIT
OPEN OUTCRY
CLEARING HOUSE
CLEARED TRADES
TRADE ACTIVITY
TRADE ACTIVITY
COMPLIANCE
FIRM BACK OFFICE
MATCHED TRADES
PRICES
PRICES
PRICE REPORTING
PRICES DISSEMINATED TO PUBLIC
PRICES
GLOBEX

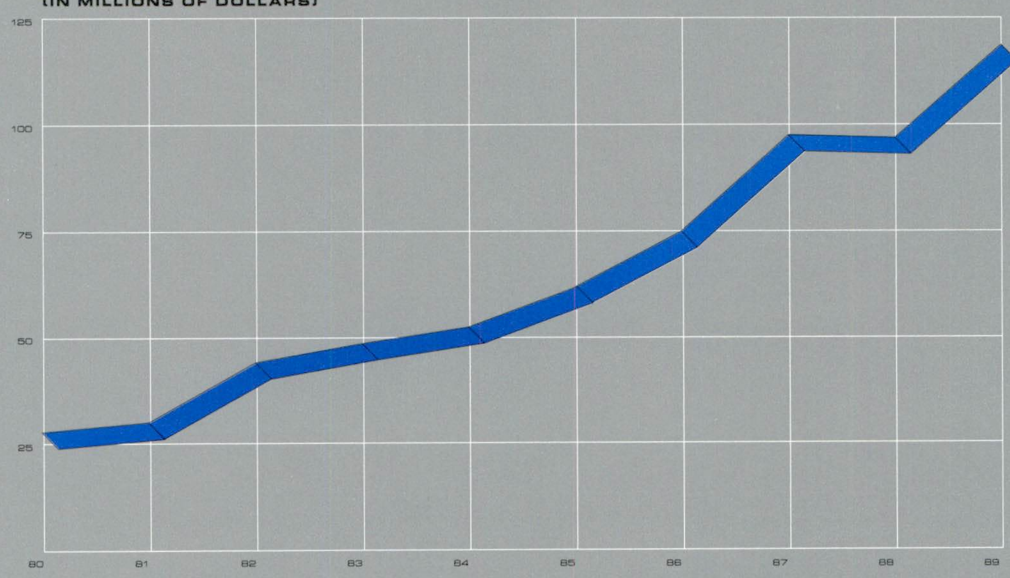
Revenue for 1989 totalled $119,564,000, an increase of 22 percent over the 1988 result. The major portion of this increase was attributable to clearance fees which was a direct result of the growth in volume. Also, income from subscribers to Exchange quotations, as well as an increase in interest income, contributed to the overall revenue gain.

Operating expenses for the year were $102,168,000, 17 percent above the 1988 level. Much of this increase was attributable to the controlled growth in staffing required to support trading operations, systems operations and development, and to augment the Exchange's self-regulatory responsibilities.

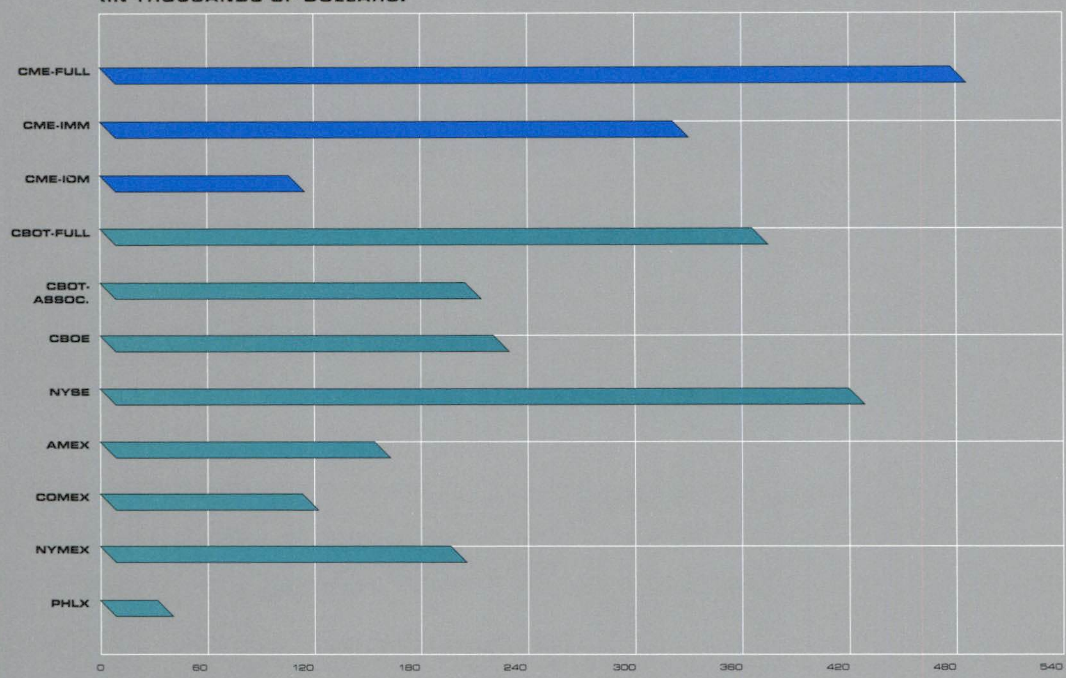
Income from Exchange operations, on a pre-tax basis, totalled $17,396,000, an increase of $6,731,000 from 1988. After taking into consideration a loss in the CME Center Partnership, a contribution to the Chicago Mercantile Exchange Trust, and income taxes, net income for the year was $5,446,000.

Members' equity at the end of 1989 was $84,840,000, up from $79,394,000 at the end of 1988.

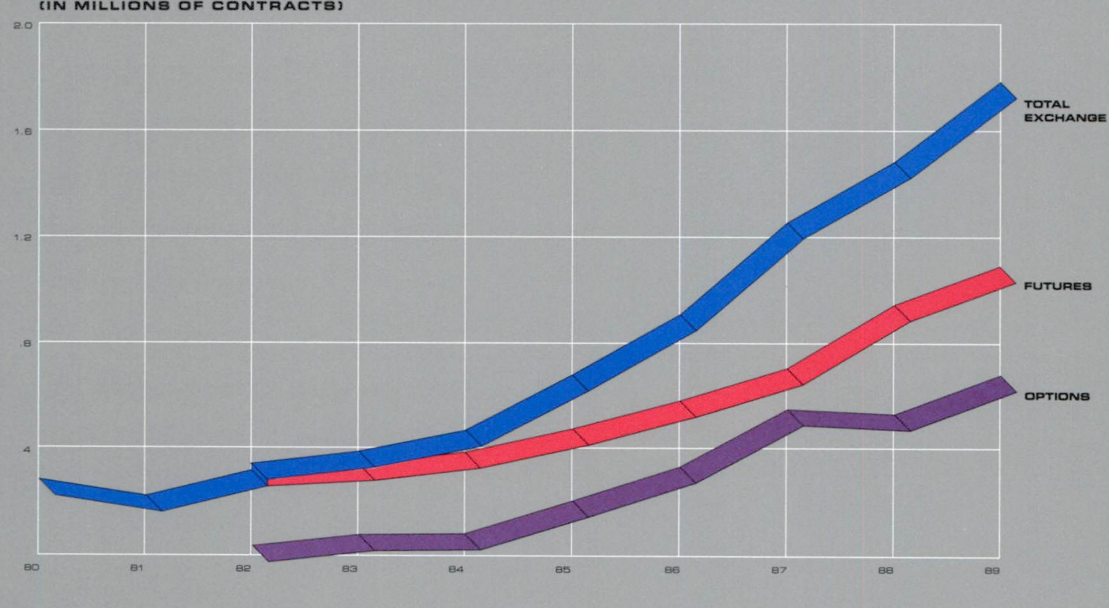
10 YEAR CME GROSS REVENUE (IN MILLIONS OF DOLLARS)



1989 U.S. EXCHANGE MEMBERSHIP VALUES, YEAR-END PRICES
(IN THOUSANDS OF DOLLARS)



10 YEAR CME OPEN INTEREST, YEAR-END TOTALS
(IN MILLIONS OF CONTRACTS)



BALANCE SHEETS

December 31, 1989 and 1988
(Dollars in Thousands)

ASSETS	1989	1988
Current Assets:		
Cash	$ 1,325	$ 1,926
Investments (note 1)	56,574	36,663
Accounts receivable	14,232	14,861
Accrued interest receivable and prepaid expenses	896	916
Margin deposits (note 2)	2,449,497	1,874,038
Total Current Assets	2,522,524	1,928,404
Property, net of accumulated depreciation and amortization (note 3)	52,382	45,297
Cost of P-M-T Limited Partnership formation (note 4)	1,633	1,606
Other assets	2,927	1,872
Total Assets	$2,579,466	$1,977,179

LIABILITIES AND MEMBERS' EQUITY	1989	1988
Current Liabilities:		
Accounts payable and accrued expenses (note 5)	$ 18,558	$ 13,301
Margin deposits (note 2)	2,449,497	1,874,038
Total Current Liabilities	2,468,055	1,887,339
Deferred taxes and other deferred items (note 5)	9,943	8,389
Equity in CME Center Partnership (note 6)	16,628	2,057
Total Liabilities	2,494,626	1,897,785
Members' Equity	84,840	79,394
Total Liabilities and Members' Equity	$2,579,466	$1,977,179

The accompanying notes to financial statements are an integral part of these statements.

STATEMENTS OF INCOME

For the years ended December 31, 1989 and 1988
(Dollars in Thousands)

REVENUES	1989	1988
Clearance fees	$ 79,636	$62,384
Interest income	6,336	4,967
Quotation data fees	23,376	22,533
Communication fees	3,753	3,363
Other operating revenues	6,463	4,647
Total Revenues	119,564	97,894
EXPENSES		
Salaries and benefits (note 7)	42,125	35,859
Public relations and promotion	10,079	8,127
Occupancy	13,215	11,285
Communications, software, and equipment rental and maintenance	10,502	9,270
Professional fees, outside services and licenses	9,472	6,652
Depreciation and amortization	7,834	7,501
Other operating expenses	8,941	8,535
Total Expenses	102,168	87,229
Income from operations	17,396	10,665
Loss on investment in CME Center Partnership	300	50
Contribution to Chicago Mercantile Exchange Trust (note 9)	8,000	5,000
Provision for income taxes (note 5)	3,650	2,125
Net Income	$ 5,446	$ 3,490

STATEMENTS OF CHANGES IN MEMBERS' EQUITY

For the years ended December 31, 1989 and 1988
(Dollars in Thousands)

	1989	1988
Members' Equity, beginning of year	$ 79,394	$75,904
Net Income	5,446	3,490
Members' Equity, end of year	$ 84,840	$79,394

The accompanying notes to financial statements are an integral part of these statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the years ended December 31, 1989 and 1988
(Dollars in Thousands)

FINANCIAL RESOURCES WERE PROVIDED FROM:	1989	1988
Net Income	$ 5,446	$ 3,490
Add items not affecting working capital:		
Depreciation and amortization	7,834	7,501
Loss on investment in CME Center Partnership	300	50
Net deferred rent expense	248	958
Deferred pension expense	337	177
Deferred income tax provision	(399)	(143)
Working capital provided by operations	13,766	12,033
Other sources	14,584	1,478
	28,350	13,511

FINANCIAL RESOURCES WERE USED FOR:		
Property additions, net	14,919	10,216
Additional investment in CME Center Partnership	0	70
Cost of P-M-T Limited Partnership formation	27	1,606
Other uses	0	1,502
	14,946	13,394
Increase in working capital	$ 13,404	$ 117

SUMMARY OF CHANGES IN WORKING CAPITAL:		
Increase (decrease) in current assets:		
Cash	$ (601)	$ 461
Investments	19,911	(7,477)
Accounts receivable	(629)	5,085
Accrued interest receivable and prepaid expenses	(20)	(57)
Margin deposits	575,459	(901,416)
	594,120	(903,404)
(Increase) decrease in current liabilities:		
Accounts payable and accrued expenses	(5,257)	2,105
Margin deposits	(575,459)	901,416
	(580,716)	903,521
Increase in working capital	$ 13,404	$ 117

The accompanying notes to financial statements are an integral part of these statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Investments

Investments consist of U.S. Treasury securities and U.S. Treasury securities purchased under agreements to resell. U.S. Treasury securities are recorded at cost plus accreted discount which approximate market value. U.S. Treasury securities purchased under agreements to resell are fully collateralized, and are recorded at the contract values which approximates market value. The Exchange's policy is to take possession of the U.S. Treasury securities purchased under agreements to resell.

Margin Deposits

Margin deposits held by the Exchange for the accounts of clearing members consist primarily of short-term U.S. Government securities recorded at their market value on the date deposited by the clearing members.

Income on securities purchased at the direction of clearing members accrues to the clearing members and is not reflected in these financial statements.

Property

Property is stated at cost less accumulated depreciation and amortization. Depreciation on furniture, fixtures and equipment is provided on a straight line method over the estimated useful lives of the assets for book purposes and on accelerated methods for tax purposes. Leasehold improvements are amortized over the lesser of their estimated useful lives or the remaining term of the applicable leases. Maintenance and repair items are charged to expense as incurred; renewals and betterments are capitalized.

Quotation Data Fees

Quotation revenue represents fees charged for the dissemination of market information.

Provision for Income Taxes

The provision for income taxes is based on reported income adjusted for certain items that do not enter into the computation of taxes payable under applicable tax laws. Deferred income tax amounts are recognized for timing differences between book and taxable income. These differences result primarily from the different methods used for book and tax depreciation and the different methods used for book and tax expense under certain operating lease arrangements.

(2) MARGIN DEPOSITS:

The Exchange is required under the Commodity Exchange Act to segregate cash and securities deposited by clearing members. Securities of $2,446 million together with $3 million in cash at December 31, 1989, and $1,871 million with $3 million in cash at December 31, 1988, were segregated pursuant to such regulation.

In addition, the Exchange held irrevocable letters of credit of approximately $963 million and $946 million at December 31, 1989 and 1988, respectively. These letters of credit, which are not reflected in the balance sheet, are utilized by clearing member firms to meet their obligation to the Exchange for certain margin requirements.

(3) PROPERTY:

A summary of the property accounts as of December 31 is presented below (dollars in thousands):

	1989	1988
Leasehold improvements	$48,042	$38,558
Furniture, fixtures and equipment	41,468	36,275
Total	89,510	74,833
Less: Accumulated depreciation and amortization	37,128	29,536
Total	$52,382	$45,297

(4) COST OF P-M-T LIMITED PARTNERSHIP:

On October 6, 1987, the members of the Chicago Mercantile Exchange approved by referendum the formation of the P-M-T Limited Partnership (the Partnership). Pursuant to the referendum, the certificate of partnership was filed in December, 1988, by the Exchange, as general partner, organizing the Partnership with members of the Exchange and clearing members of the Exchange as limited partners.

The purpose of the Partnership is to create a global electronic trading system (GLOBEX) for instruments including futures and options contracts.

The Exchange, as the general partner, contributed $200,000 for a 10% interest in the Partnership, which is accounted for by the equity method. In addition, the Exchange paid to the members of the Exchange approximately $1,400,000 for the grant of right to form the Partnership. Under the terms of the Partnership Agreement, income, losses, distributions and tax credits of the Partnership are allocated to the Exchange based upon its Partnership interest.

Additional capital contributions by the Exchange, as general partner, may be required to cure a capital deficiency.

(5) INCOME TAXES:

The provision for income taxes of $3,650,000 in 1989 and $2,125,000 in 1988 includes a reduction in net deferred income tax expense of approximately $399,000 and $143,000, respectively. The provision for income taxes includes state income taxes of $350,000 in 1989, and $187,000 in 1988.

In December, 1989, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 103, "Accounting for Income Taxes-Deferral of Effective Date of FASB Statement No. 96". Under SFAS No. 103, although earlier implementation is permitted, adoption of SFAS No. 96 is required for fiscal years beginning after December 15, 1991. The Exchange expects to adopt the new standard in accordance with SFAS 103, and does not plan to restate prior periods. The Exchange expects a favorable impact on reported net income when the standard is adopted.

(6) EQUITY IN CME CENTER PARTNERSHIP:

The Exchange holds approximately a 10% limited partnership interest in the CME Center Partnership (the CMEC Partnership), which is accounted for under the equity method.

The CMEC Partnership was formed for the purpose of constructing, owning and operating the first building of the twin towers called the Chicago Mercantile Exchange Center.

Under the terms of the CMEC Partnership Agreement, income, losses, distributions and tax credits of the CMEC Partnership are allocated to the Exchange based upon its partnership interest. Pursuant to these terms, the Exchange received during 1989 approximately $14 million as a distributive share of the proceeds from the CMEC Partnership's refinancing of the tower.

Additional capital contributions by the Exchange, required by the CMEC Partnership to cure a capital deficiency, would be limited to an amount which would maintain its partnership interest.

(7) EMPLOYEE BENEFIT PLANS:

The Exchange maintains a non-contributory defined benefit pension plan (the Plan) for eligible employees. Employees who have completed a continuous 12-month period of employment with 1,000 or more hours of service and have reached the age of 21 are eligible to participate. The Exchange's policy is to currently fund required pension costs.

Pension cost for 1989 and 1988 was comprised of (dollars in thousands):

	1989	1988
Service cost	$ 491	$ 382
Interest cost on projected benefit obligations	227	175
Actual return on plan assets	(362)	(346)
Amortization and deferrals	(19)	(34)
Total Pension Cost	$ 337	$ 177

The following table sets forth the Plan's funded status at the most recent valuation date and the amount recognized in the Exchange's financial statements at December 31 (dollars in thousands):

Funded Status at October 31	1989	1988
Actuarial present value of benefit obligation:		
Accumulated benefit obligation, including vested benefits of $1,592 and $1,166	$(2,183)	$(1,658)
Projected benefit obligation for service rendered to date	$(3,537)	$(2,763)
Plan assets at fair value	4,572	4,332
Projected benefit obligation less than plan assets	1,035	1,569
Unrecognized net (gain) or loss	(445)	(568)
Unrecognized net asset at November 1, 1985 being recognized over 18.5 years	(1,079)	(1,153)
Pension liability	$ (489)	$ (152)
Projected unit credit method actuarial assumptions:		
Discount rate	8%	8%
Salary progression	6%	6%
Expected long-term rate of return on plan assets	7%	7%

The Exchange maintains a savings plan pursuant to Section 401(k) of the Internal Revenue Code whereby all employees are participants and have the option to contribute to the Plan. The Exchange matches employee contributions up to 3% of the employee's base salary.

(8) LEASE COMMITMENTS:

The Exchange's principal lease arrangements are for office space in the CME Center Towers, and for the trading facility. The Tower lease commitments expire in the year 2003, with annual minimum rentals of approximately $7.0 million, of which $3.6 million is payable to the CME Center Partnership (see Note 6). The Exchange has a commitment to lease facilities from the Chicago Mercantile Exchange Trust (see Note 9) through 1998, with annual minimum rentals of $1,044,000 increasing to $2,097,000 by the end of the lease term. Other significant arrangements include rental of data processing equipment. Rental expense was $13,047,000 in 1989 and $11,428,000 in 1988. Future minimum lease payments for all noncancelable operating leases and related subleases having a remaining term in excess of one year at December 31, 1989, are as follows:

Minimum Rent (dollars in thousands):

1990	$ 8,081
1991	9,496
1992	9,160
1993	8,767
1994	8,851
Later Years	78,402
Total Minimum Payments	122,757
Less Sublease Rental	7,747
	$115,010

The Exchange subleases certain air rights at an amount equal to the Exchange's commitment thereunder.

(9) CHICAGO MERCANTILE EXCHANGE TRUST:

In 1969, the Exchange established the Chicago Mercantile Exchange Trust for the purpose of providing financial assistance, on a discretionary basis, to customers of any clearing member who should become insolvent. Such assistance would be limited to transactions effected on the Exchange.

(10) CONTINGENCIES AND COMMITMENTS:

The Exchange is a defendant in, and is threatened with, various legal proceedings arising from its regular business activities. Management, after consulting with legal counsel, is of the opinion that the ultimate liability, if any, resulting from any threatened actions and proceedings will not have a material effect on the financial position or the results of operations of the Exchange.

To the Board of Governors and Members of the Chicago Mercantile Exchange:

We have audited the accompanying balance sheets of the Chicago Mercantile Exchange (an Illinois not-for-profit corporation) as of December 31, 1989 and 1988, and the related statements of income, changes in members' equity, and changes in financial position for the years then ended. These financial statements are the responsibility of the Exchange's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chicago Mercantile Exchange as of December 31, 1989 and 1988, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN & CO.

Chicago, Illinois,
January 26, 1990.

JOHN T. GELDERMANN
CHAIRMAN OF THE BOARD
Chairman, Automated Data Input Terminal System Committee
Chairman, Committee on Committees
Chairman, Special Panel to Review Trading Practices
Member, Executive Committee
Vice President, Geldermann, Inc.

STEVEN E. WOLLACK
FIRST VICE CHAIRMAN
Chairman, DIFF Products Committee
Chairman, Floor Practices Committee-Financial Division
Chairman, Foreign Currency Committee
Chairman, Study Exchange of Futures for Physicals Fees Committee
Chairman, Trading Practices/Dual Trading Committee
Vice Chairman, Financial Instruments Steering Committee
Member, Executive Committee
Independent Trader, GNP Commodities, Inc.

JAMES E. OLIFF
SECOND VICE CHAIRMAN
Chairman, Admission Requirements Committee
Chairman, Arbitration Committee-Financial Division
Chairman, Commodity Representative/Customer Complaint Committee
Chairman, Out-Trade Policy Committee
Chairman, Rule 110 Ad Hoc Committee
Co-Chairman, Membership Committee
Co-Chairman, Pit Supervision Committee
Co-Vice Chairman, DIFF Products Committee
Member, Executive Committee
President-Director, Filo Corp.
Asst. Secretary & Director, H. Oliff, Inc.

M. SCOTT GORDON
SECRETARY
Chairman, Eurodollar Order Entry Process
Chairman, GLOBEX Screen Design and Technical Advisory Committee
Chairman, Member Space Allocation Committee
Chairman, Probable Cause Committee
Co-Chairman, Building Improvement and Real Estate Committee
Co-Chairman, Facility Coordination Committee
Co-Chairman, Upper Trading Floor Committee
Vice Chairman, Disciplinary Practices Committee
Member, Executive Committee
Executive Vice President, Mitsubishi Financial Futures Inc.

LARRY B. LEONARD
TREASURER
Chairman, Audit Committee
Chairman, Finance Committee
Chairman, Floor Communications Committee
Chairman, Trading Surveillance Committee
Co-Chairman, Building Improvement and Real Estate Committee
Co-Chairman, Facility Coordination Committee
Co-Chairman, Upper Trading Floor Committee
Co-Vice Chairman, CME Institutional Film Committee
Member, Executive Committee
Independent Trader, Shepard International

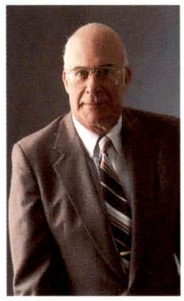
LAURENCE M. ROSENBERG
LEGISLATIVE LIAISON
Chairman, Business Conduct Committee-Agricultural Division
Chairman, Business Conduct Committee-Financial Division
Chairman, Disciplinary Practices Committee
Chairman, Public Affairs Committee
Chairman, Review 501 Committee
Member, Executive Committee
President & Chief Executive Officer, First Commercial Financial Group, Inc.

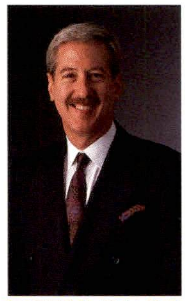
JOHN F. SANDNER
SENIOR POLICY ADVISOR
Chairman, Strategic Planning Committee
Vice Chairman, CME Cattle Task Force Committee
Vice Chairman, GLOBEX Issues Committee
Vice Chairman, GLOBEX Negotiating Committee
Member, Executive Committee
President, Rufenacht Bromagen & Hertz, Inc.

LEO MELAMED
CHAIRMAN, EXECUTIVE COMMITTEE, SPECIAL COUNSEL TO THE BOARD
Chairman, Financial Instruments Advisory Committee
Chairman, GLOBEX Board of Directors
Chairman, GLOBEX Issues Committee
Chairman, GLOBEX Negotiating Committee
Chairman, International Steering Committee
Co-Chairman, CME Institutional Film Committee
Chairman, Dellsher Investment Co., Inc.
Chairman, National Futures Association

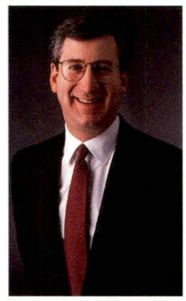
DONALD BUTLER
Public Governor
Past President, National Cattlemen's Association
Carmel, California

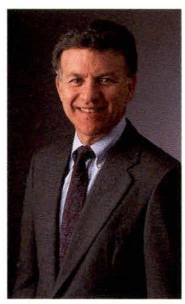
MAX C. CHAPMAN, JR.
Industry Governor
Co-Chairman, Nomura Securities International, Inc.
York, New York

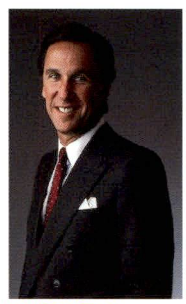

JOHN T. GELDERMANN

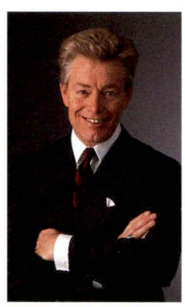

STEVEN E. WOLLACK


JAMES E. OLIFF


M. SCOTT GORDON

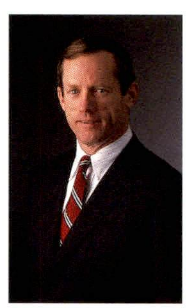

LARRY B. LEONARD


LAURENCE M. ROSENBERG

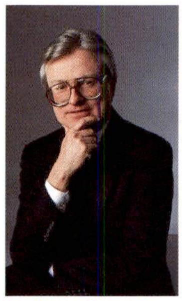

JOHN F. SANDNER


LEO MELAMED

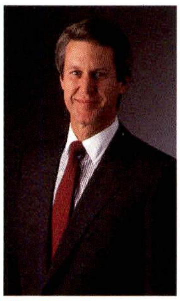

DONALD BUTLER


MAX C. CHAPMAN, JR.

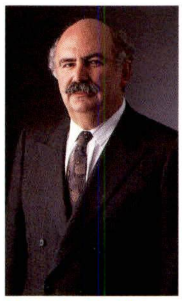
HOWARD B. DUBNOW



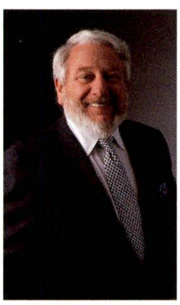
DENIS P. DUFFEY



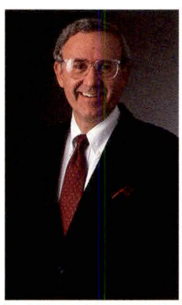
ROBERT B. FEDUNIAK



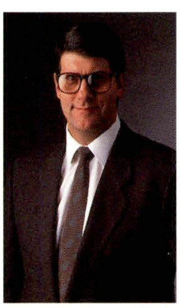
PHILIP L. GLASS



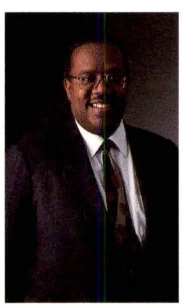
GERALD HIRSCH



D. ROBERT JORDAN

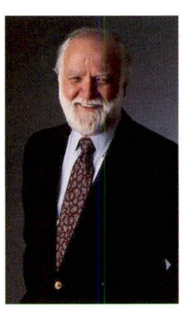


PHILLIP T. KARAFOTAS



GORDON McCLENDON

LOUIS I. MARGOLIS



GIRARD G. MILLER

HOWARD B. DUBNOW
Chairman, Broker Association Committee
Chairman, Emergency Procedures Committee
Chairman, S&P Price Limit Committee
Chairman, Trade Order Processing System Committee
Co-Chairman, Pit Supervision Committee
Vice Chairman, Business Conduct Committee-Financial Division
Vice Chairman, Equity Indices-Specifications Committee
Vice Chairman, Review Statistical Information Committee
Vice Chairman, Trading Practices/Broker Associations and Verbal Orders Committee
Co-Vice Chairman, Member Space Allocation Committee
Member, Executive Committee
Floor Broker/Trader, Dellsher Investment Co., Inc.

DENIS P. DUFFEY
Chairman, Floor Broker Qualification Committee
Chairman, Interest Rate Futures Committee
Chairman, Review Statistical Information Committee
Co-Chairman, Floor Orientation Committee
Co-Vice Chairman, DIFF Products Committee
Co-Vice Chairman, Floor Communications Committee
Co-Vice Chairman, Leasing Committee
President, Denis P. Duffey, Ltd.

ROBERT B. FEDUNIAK
Industry Governor
Managing Director, Morgan Stanley & Co., Inc. New York, New York

PHILIP L. GLASS
Chairman, Clearing House Committee
Chairman, Computerized Trade Reconstruction Enhancements Committee
Co-Chairman, GLOBEX Back Office Operations Advisory Committee
Co-Chairman, GLOBEX Financial Safeguards Advisory Committee
Vice Chairman, Audit Committee
Vice Chairman, GLOBEX Screen Design and Technical Advisory Committee
Vice Chairman, Probable Cause Committee
Vice Chairman, Rates and Qualification of Clearing Committee
Co-Vice Chairman, Finance Committee
Member, Executive Committee
Chairman, Glass, Ginsburg Ltd.
President, Glass International Ltd.

GERALD HIRSCH
Chairman, Arbitration Committee—Agricultural Division
Co-Chairman, Member Services Committee
Vice Chairman, Contributions Committee
Vice Chairman, Pork Products Committee
Co-Vice Chairman, Finance Committee
Co-Vice Chairman, Public Affairs Committee
Vice Chairman, Board of Directors, Saul Stone & Company

D. ROBERT JORDAN
Chairman, Equity Indices-Specifications Committee
Chairman, Floor Practices Committee-Options
Chairman, Implement Futures Style Margining Committee
Chairman, Options Committee
Vice Chairman, S&P Price Limit Committee
Independent Floor Trader

PHILLIP T. KARAFOTAS
Chairman, Agricultural Advisory Committee
Chairman, Agricultural Steering Committee
Chairman, Education Committee
Chairman, Member Coordination Committee
Chairman, Post Close Trading Session Committee
Chairman, Trade Procedures Committee
Co-Chairman, CME Institutional Film Committee
Vice Chairman, Trading Practices/Dual Trading Committee
Vice Chairman, Trade Order Processing System Committee
Co-Vice Chairman, Cattle-Feeder Committee
Co-Vice Chairman, Cattle-Live Committee
Member, Executive Committee
President, Kare Trading Inc.

GORDON J. MCCLENDON
Vice Chairman, Currency Price Limit Committee
Vice Chairman, Floor Practices Committee-Options
Co-Vice Chairman, Arbitration Committee-Financial Division
Co-Vice Chairman, Floor Broker Qualification Committee
Co-Vice Chairman, Floor Orientation Committee
Co-Vice Chairman, Options Committee
Independent Trader, Saul Stone & Company

LOUIS I. MARGOLIS
Industry Governor
Managing Director, Salomon Brothers Inc. New York, New York

GIRARD G. MILLER
Chairman, Computerized Trade Reconstruction Committee
Chairman, Cattle-Feeder Committee
Chairman, Cattle-Live Committee
Chairman, Rates and Qualification of Clearing Committee
Vice Chairman, Agricultural Steering Committee
Vice Chairman, Business Conduct Committee-Agricultural Division
Vice Chairman, Computerized Trade Reconstruction Enhancements Committee
Vice Chairman, Implement Futures Style Margining Committee
Co-Vice Chairman, Agricultural Advisory Committee
Co-Vice Chairman, Clearing House Committee
Co-Vice Chairman, Trade Procedures Committee
Executive Vice President, Index Futures Group, Inc.

BRIAN P. MONIESON
Chairman, Clearing Fee Committee
Chairman, Financial Instruments Steering Committee
Chairman, GLOBEX Terminal Location Committee
Vice Chairman, International Steering Committee
Vice Chairman, Strategic Planning Committee
Member, Executive Committee
Chairman, GNP Commodities, Inc.

WILLIAM C. MUNO
Chairman, Approved Delivery Facility Committee
Co-Chairman, Pit Supervision Committee
Vice Chairman, Butter Committee
Vice Chairman, Floor Practices Committee-Agricultural Division
Vice Chairman, Live Hog Committee
Vice Chairman, Trading Surveillance Committee
Co-Vice Chairman, Clearing House Committee
Independent Floor Broker, Saul Stone & Company

NORMA L. NEWBERGER
Co-Chairman, Contributions Committee
Co-Chairman, Member Services Committee
Co-Chairman, Membership Committee
Co-Chairman, Restaurant and Club Committee
Vice Chairman, Education Committee
Vice Chairman, Forest Products Committee
Co-Vice Chairman, Arbitration Committee-Financial Division
Co-Vice Chairman, CME Institutional Film Committee
Co-Vice Chairman, Floor Services Committee
Independent Broker, Dellsher Investment Co., Inc.

SUSAN M. PHILLIPS
Public Governor
Vice President for Finance & University Services
University of Iowa
Iowa City, Iowa

ROBERT J. PROSI
Chairman, Butter Committee
Chairman, Forest Products Committee
Co-Chairman, Contributions Committee
Vice Chairman Arbitration Committee-Agricultural Division
Vice Chairman, Building Improvement and Real Estate Committee
Vice Chairman, Commodity Representative/Customer Complaint Committee
Co-Vice Chairman, Floor Communications Committee
Co-Vice Chairman, Floor Orientation Committee
Vice President, Smith Barney, Harris Upham, Inc.

MICHAEL P. SAVOCA
Chairman, Floor Services Committee
Chairman, Permit Administration Committee
Chairman, Pork Products Committee
Co-Chairman, Floor Orientation Committee
Co-Chairman, Membership Committee
Vice Chairman, Admission Requirements
Vice Chairman, Approved Delivery Facility Committee
Vice Chairman, Facility Coordination Committee
Co-Vice Chairman, Leasing Committee
Vice President, Gerald Commodities
Independent Floor Broker

ALAN C. SCHEINBAUM
Vice Chairman, Membership Committee
Co-Vice Chairman, Floor Communications Committee
Co-Vice Chairman, Floor Practices Committee-Financial Division
Co-Vice Chairman, Foreign Currency Committee
Co-Vice Chairman, Member Space Allocation Committee
Independent Trader, Rosenthal Collins Group

LOUIS G. SCHWARTZ
Chairman, Floor Practices Committee-Agricultural Division
Chairman, Leasing Committee
Chairman, Live Hog Committee
Chairman, Trading Practices/Broker Associations and Verbal Orders Committee
Vice Chairman, Broker Association Committee
Co-Vice Chairman, Agricultural Advisory Committee
Co-Vice Chairman, Options Committee
President, Pebble Beach Options, Inc.
President, L. G. Schwartz Co., Inc.

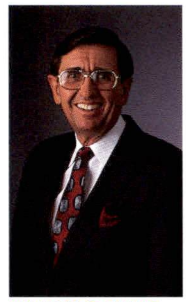
SCOTT SLUTSKY
Co-Chairman, Currency Price Limit Committee
Co-Vice Chairman, Floor Practices Committee-Financial Division
Co-Vice Chairman, Floor Services Committee
Co-Vice Chairman, Foreign Currency Committee
Co-Vice Chairman, Public Affairs Committee
Chief Executive Officer, International Currency Futures

DAVID J. WESCOTT
Co-Chairman, Restaurant and Club Committee
Vice Chairman, Interest Rate Futures Committee
Vice Chairman, Member Services Committee
Co-Vice Chairman, Floor Broker Qualification Committee
Co-Vice Chairman, Floor Orientation Committee
Co-Vice Chairman, Trade Procedures Committee
Independent Floor Broker
President, Cot Brokerage, Ltd.

KATSUYA TAKANASHI*
THOMAS F. EAGLETON*

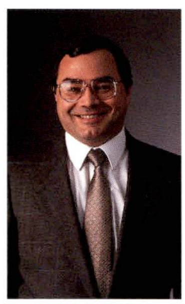
**Resigned during 1989.*


BRIAN P. MONIESON


WILLIAM C. MUNO


NORMA L. NEWBERGER


SUSAN M. PHILLIPS


ROBERT J. PROSI


MICHAEL P. SAVOCA


ALAN C. SCHEINBAUM


LOUIS G. SCHWARTZ


SCOTT SLUTSKY


DAVID WESCOTT

CME CLEARING MEMBERS

ADM INVESTOR SERVICES, INC.°°
4666 Faries Pkwy.
Decatur, IL 62526
(217) 424-5200

141 W. Jackson Blvd., Rm. 1685
Chicago, IL 60604
(312) 435-7000

AGE COMMODITY CLEARING CORP.
One N. Jefferson
St. Louis, MO 63103
(314) 289-3183

141 W. Jackson Blvd., Ste. 201A
Chicago, IL 60604
(312) 341-1935

ARGUS CORPORATION°°
141 W. Jackson Blvd., Ste. 3400
Chicago, IL 60604
(312) 408-7615

BA FUTURES, INC.
200 W. Adams, 27th Flr.
Chicago, IL 60606
(312) 269-4600

BALFOUR MACLAINE FUTURES INCORPORATED°°
88 Pine St., Wall Street Plaza
New York, NY 10005
(212) 422-3300

141 W. Jackson Blvd., Ste. 1250
Chicago, IL 60604
(312) 347-5500

BEAR, STEARNS & CO., INC.°°
245 Park Ave.
New York, NY 10167
(212) 272-2000

BT FUTURES CORP.
130 Liberty St., 31st Flr.
New York, NY 10006
(212) 775-3850

141 W. Jackson Blvd., 18th Flr.
Chicago, IL 60604
(312) 876-7586

CARGILL INVESTOR SERVICES, INC.
141 W. Jackson Blvd., Ste. 1800
Chicago, IL 60604
(312) 435-8300

CARR FUTURES INTERNATIONAL, INC.
10 S. Wacker Dr., Ste. 1125
Chicago, IL 60606
(312) 930-3401

CHASE MANHATTAN FUTURES CORPORATION
One Chase Manhattan Plaza
New York, NY 10081
(212) 552-7084

One Financial Place, 30th Flr.
Chicago, IL 60605
(312) 435-2300

CHICAGO CORPORATION (THE)
208 S. LaSalle St., Ste. 200
Chicago, IL 60604
(312) 855-7600

CITICORP FUTURES CORPORATION
55 Water St., 47th Flr.
New York, NY 10043
(212) 291-3310

200 S. Wacker Dr., 29th Flr.
Chicago, IL 60606
(312) 993-3707

CM&M FUTURES INC.°°
40 Wall St.
New York, NY 10005
(212) 825-9302

CREDIT LYONNAIS ALEXANDERS ROUSE (USA) LIMITED
95 Wall St.
New York, NY 10005
(212) 344-0500

227 W. Monroe St., 38th Flr.
Chicago, IL 60606
(312) 641-0500

CRT SERVICES, INC.
440 S. LaSalle St., Ste. 3300
Chicago, IL 60605
(312) 922-4200

DAIWA SECURITIES AMERICA INC.
Two N. LaSalle St., Ste. 625
Chicago, IL 60602
(312) 609-2291

One World Financial Center
200 Liberty St., Tower A
New York, NY 10281
(212) 945-0100

DEAN WITTER REYNOLDS, INC.
Two World Trade Center, 66th Flr.
New York, NY 10048
(212) 392-8712

150 S. Wacker Dr., 2nd Flr.
Chicago, IL 60606
(312) 984-4345

DELLSHER INVESTMENT COMPANY, INC.
30 S. Wacker Dr., Ste. 1908
Chicago, IL 60606
(312) 930-0001

DISCOUNT CORPORATION OF NEW YORK FUTURES
58 Pine St.
New York, NY 10005
(212) 248-8900

200 W. Madison, 2nd Flr.
Chicago, IL 60606
(312) 368-2200

DREXEL BURNHAM LAMBERT INCORPORATED
60 Broad St.
New York, NY 10004
(212) 480-6000

One S. Wacker Dr., 14th Flr.
Chicago, IL 60606
(312) 977-3000

ELDERS FUTURES INC.°°
200 Park Ave., 26th Flr.
New York, NY 10166
(212) 573-0400

FIMAT FUTURES USA, INC.
70 W. Madison St., Ste. 5380
Chicago, IL 60602
(312) 346-2827

FIRST BOSTON FUTURES, INCORPORATED
55 E. 52nd St., Park Avenue Plaza
New York, NY 10055
(212) 909-2000

227 W. Monroe, Ste. 4100
Chicago, IL 60606
(312) 750-3000

FIRST CHICAGO FUTURES, INC.
1 First National Plaza, Ste. 0401
Chicago, IL 60670
(312) 732-4174

FIRST COMMERCIAL FINANCIAL GROUP, INC.
30 S. Wacker Dr., Ste. 2020
Chicago, IL 60606
(312) 648-3800

FIRST OPTIONS OF CHICAGO, INC.°°
440 S. LaSalle St., Ste. 1600
Chicago, IL 60605
(312) 362-3000

GELBER GROUP, INC.°°
141 W. Jackson Blvd., Ste. 1310A
Chicago, IL 60604
(312) 427-7100

GELDERMANN, INC.°°
440 S. LaSalle St.
One Financial Place, 20th Flr.
Chicago, IL 60605
(312) 663-7500

GERALD, INC.
30 S. Wacker Dr., Ste. 2200
Chicago, IL 60606
(312) 559-8800

GNP COMMODITIES, INC.
30 S. Wacker Dr., 9th Flr.
Chicago, IL 60606
(312) 930-7800

GREENWICH CAPITAL MARKETS, INC.
600 Steamboat Rd.
Greenwich, CT 06830
(203) 625-2724

327 S. LaSalle St., Ste. 817
Chicago, IL 60604
(312) 939-3268

GRIFFIN TRADING COMPANY°°
141 W. Jackson Blvd., Ste. 1580
Chicago, IL 60604
(312) 663-1150

GSA CLEARING CORP.
85 Broad St.
New York, NY 10004
(212) 902-1000

4900 Sears Tower
Chicago, IL 60606
(312) 993-4500

HARRIS FUTURES CORPORATION
111 W. Monroe St., 10th Flr. Center
Chicago, IL 60603
(312) 461-3356

INDEX FUTURES GROUP, INC.°°
200 W. Adams, Ste. 1500
Chicago, IL 60606
(312) 419-5800

IOWA GRAIN COMPANY
141 W. Jackson Blvd., Ste. 2600
Chicago, IL 60604
(312) 347-5000

J. P. MORGAN FUTURES INC.
23 Wall St., 10-37th Flrs.
New York, NY 10015
(212) 483-8964

200 W. Adams, Ste. 925
Chicago, IL 60606
(312) 346-6200

JOHN T. ASSOCIATES, INC.
300 W. Adams, Ste. 530
Chicago, IL 60606
(312) 641-1029

KEMPER CLEARING CORP.
411 E. Mason
Milwaukee, WI 53202
(414) 225-4100

141 W. Jackson Blvd., Ste. 1820A
Chicago, IL 60604
(312) 431-0333

KESSLER ASHER CLEARING INC.
111 W. Jackson Blvd., 5th Flr.
Chicago, IL 60604
(312) 435-8400

KEYSTONE TRADING CORPORATION
30 S. Wacker Dr., Ste. 1606
Chicago, IL 60606
(312) 207-0117

KIDDER, PEABODY & CO. INCORPORATED
20 Exchange Pl., 13th Flr.
New York, NY 10005
(212) 510-3000

125 S. Wacker Dr., Ste. 2600
Chicago, IL 60606
(312) 984-2300

LEE B. STERN & CO., LTD.°°
141 W. Jackson Blvd., Ste. 1620
Chicago, IL 60604
(312) 341-5900

LIND-WALDOCK & COMPANY
30 S. Wacker Dr., Ste. 1712
Chicago, IL 60606
(312) 648-1400

LIT AMERICA INC.
30 S. Wacker Dr., Ste. 1120
Chicago, IL 60606
(312) 906-7100

MANUFACTURERS HANOVER FUTURES, INC.
270 Park Ave., 8th Flr.
New York, NY 10017
(212) 286-6000

10 S. LaSalle St., 22nd Flr.
Chicago, IL 60603
(312) 726-7208

MERCHANTS TRADING COMPANY
141 W. Jackson Blvd., Ste. 2700
Chicago, IL 60604
(312) 939-7000

MERRILL LYNCH FUTURES, INC.°°
Two Broadway, 3rd Flr.
New York, NY 10004
(212) 709-2164

141 W. Jackson Blvd., Ste. 380
Chicago, IL 60604
(312) 347-6508

MITSUBISHI FINANCIAL FUTURES INC.
30 S. Wacker Dr., Ste. 1702
Chicago, IL 60606
(312) 930-2300

MOCATTA FUTURES CORPORATION
4 World Trade Center, Ste. 5200
New York, NY 10048
(212) 912-8400

141 W. Jackson Blvd., Ste. 3550
Chicago, IL 60604
(312) 347-5600

MORGAN STANLEY & CO. INCORPORATED
1251 Avenue of the Americas
New York, NY 10026
(212) 703-4000

440 S. LaSalle St.
1 Financial Pl., 38th Flr.
Chicago, IL 60605
(312) 765-6000

NIKKO SECURITIES CO. INTERNATIONAL, INC. (THE)
One S. Wacker Dr., Ste. 3230
Chicago, IL 60606
(312) 726-7037

NORTHERN FUTURES CORPORATION
50 S. LaSalle St., 12th Flr.
Chicago, IL 60675
(312) 630-6000

OCA, INC.
141 W. Jackson Blvd., 8th Flr.
Chicago, IL 60604
(312) 427-6300

O'CONNOR & COMPANY°°
141 W. Jackson Blvd., Ste. 2800
Chicago, IL 60604
(312) 435-0808

PACKERS TRADING COMPANY, INC.
30 S. Wacker Dr., Ste. 1000
Chicago, IL 60606
(312) 648-5750

PAINE WEBBER INCORPORATED°°
1000 Harbor Blvd.
Weehawken, NJ 07087
(201) 902-4001

208 S. LaSalle St., Ste. 1910
Chicago, IL 60604
(312) 580-8000

PETERS AND CO.
141 W. Jackson Blvd., Ste. 1575
Chicago, IL 60604
(312) 939-6040

PLAZA CLEARING CORPORATION
55 Water St., 30th Flr.
New York, NY 10041
(212) 747-7424

8700 Sears Tower
Chicago, IL 60606
(312) 876-8541

PRUDENTIAL-BACHE SECURITIES INC.
199 Water St., One Seaport Plaza
New York, NY 10292
(212) 776-1000

141 W. Jackson Blvd., Ste. 1990
Chicago, IL 60604
(312) 461-1200

One S. Wacker Dr., 29th Flr.
Chicago, IL 60606
(312) 630-7000

R. J. O'BRIEN & ASSOCIATES, INC.
555 W. Jackson Blvd., Ste. 700
Chicago, IL 60606
(312) 408-4700

REFCO, INC.**
111 W. Jackson Blvd., Ste. 1700
Chicago, IL 60604
(312) 930-6500

REPUBLIC CLEARING CORPORATION**
452 Fifth Ave.
New York, NY 10018
(212) 869-0926

RICHARDSON GREENSHIELDS SECURITIES, INC.
175 W. Jackson Blvd., Ste. 659
Chicago, IL 60604
(312) 341-5750

RODMAN & RENSHAW, INC.
120 S. LaSalle St., 10th Flr.
Chicago, IL 60603
(312) 977-7800

ROSENTHAL COLLINS GROUP
216 W. Jackson Blvd., 2nd Flr.
Chicago, IL 60606
(312) 984-5900

RUFENACHT, BROMAGEN & HERTZ, INC.
30 S. Wacker Dr., Ste. 1912
Chicago, IL 60606
(312) 930-1200

SANWA-BGK FUTURES, INC.
599 Lexington Ave.
New York, NY 10022
(212) 527-2500

141 W. Jackson Blvd., Ste. 1720
Chicago, IL 60604
(312) 786-2935

SAUL STONE AND COMPANY
30 S. Wacker Dr., 13th Flr.
Chicago, IL 60606
(312) 454-3000

SECURITY PACIFIC FUTURES, INC.
175 W. Jackson Blvd., Ste. A1527
Chicago, IL 60604
(312) 347-1500

SHEARSON LEHMAN HUTTON INC.**
American Express Tower C
World Financial Center
New York, NY 10285
(212) 298-2000

440 S. LaSalle St., 22nd Flr.
Chicago, IL 60605
(312) 294-6000

SHEPARD INTERNATIONAL, INC.
30 S. Wacker Dr., Ste. 1418
Chicago, IL 60606
(312) 648-0275

SINGER/WENGER TRADING COMPANY, INC.**
141 W. Jackson Blvd., Ste. 2120-A
Chicago, IL 60604
(312) 663-4444

SMITH BARNEY, HARRIS UPHAM & COMPANY, INC.
1345 Avenue of the Americas
New York, NY 10105
(212) 698-6000

3 First National Plaza, Ste. 5000
Chicago, IL 60602
(312) 419-3600

SPIKE TRADING INC.
30 S. Wacker Dr., Ste. 1108A
Chicago, IL 60606
(312) 930-3430

STOTLER AND COMPANY
141 W. Jackson Blvd., Ste. 1600-A
Chicago, IL 60604
(312) 987-2700

TIMBER HILL INC.
223 W. Jackson Blvd., Ste. 1014
Chicago, IL 60604
(312) 922-9474

TRADELINK CORPORATION
175 W. Jackson Blvd., Ste. A1235
Chicago, IL 60604
(312) 939-0081

TRANSMARKET GROUP, INC.**
141 W. Jackson Blvd., Ste. 2130A
Chicago, IL 60604
(312) 663-4900

VIRGINIA TRADING CORPORATION
141 W. Jackson Blvd., Ste. 1717-A
Chicago, IL 60604
(312) 922-1717

YAMAICHI INTERNATIONAL (AMERICA), INC.**
Two World Trade Center, Ste. 9650
New York, NY 10048
(212) 432-8640

CLASS B FIRMS

ILLINOIS FOREX CORP.
30 S. Wacker Dr., 13th Flr.
Chicago, IL 60606
(312) 454-3000

Class A Guarantor
Saul Stone & Company

RIVERSIDE FINANCIAL CORPORATION
30 S. Wacker Dr., 13th Flr.
Chicago, IL 60606
(312) 454-3000

Class A Guarantor
Saul Stone & Company

RIVERSIDE FOREIGN EXCHANGE CORP.
30 S. Wacker Dr., 13th Flr.
Chicago, IL 60606
(312) 454-3000

Class A Guarantor
Saul Stone & Company

SHATKIN CURRENCY ARBITRAGE II
141 W. Jackson Blvd., Ste. 1320-A
Chicago, IL 60604
(312) 435-2100

Class A Guarantor
LIT America Inc.

STONE ARBITRAGE CORP.
30 S. Wacker Dr., 13th Flr.
Chicago, IL 60606
(312) 454-3000

Class A Guarantor
Saul Stone & Company

STONE FOREX CORP.
30 S. Wacker Dr., 13th Flr.
Chicago, IL 60606
(312) 454-3000

Class A Guarantor
Saul Stone & Company

*Addresses of Clearing Member firm corporate headquarters are noted first in addition to their Chicago offices, if applicable.

**Firm also maintains offices in the Chicago Mercantile Exchange Center, 30 S. Wacker Dr., Chicago, IL 60606.

Updated through 2/1/90

WILLIAM J. BRODSKY
President & Chief Executive Officer

MICHAEL J. APATOFF
Executive Vice President &
Chief Operating Officer

THOMAS E. KILCOLLIN
Executive Vice President &
Chief Economist

GERALD D. BEYER
Senior Vice President
Legal & Regulatory Affairs

JOHN P. DAVIDSON III
Senior Vice President
Clearing House

C. DAYLE HENINGTON
Senior Vice President
Government Relations

DAVID J. O'GORMAN
Senior Vice President
Administration & Finance

BARBARA A. RICHARDS
Senior Vice President
Marketing

CHARLES M. SEEGER III
Senior Vice President
Government Counsel

DONALD D. SERPICO
Senior Vice President
Operations

TAKEO ARAKAWA
Vice President & Managing Director
Tokyo Office

KENNETH R. CONE
Vice President
Strategic Planning

DAVID B. DU PONT
Vice President
Equity Index Marketing

J. MICHAEL GORHAM
Vice President
Commodity Marketing & Education

EDWARD T. HASKINS
Vice President
Trading Floor Operations

KEVIN P. HOLLAND
Vice President
Audit

HIROKI KATO
Vice President
Asian Development

IRA G. KAWALLER
Vice President
New York Office

MICHAEL J. KELLY
Vice President
Management Information Systems

JAMES R. KRAUSE
Vice President
Clearing Systems

JOHN W. MC PARTLAND
Vice President
Business Development

PAUL B. O'KELLY
Vice President
Compliance

ROBERT L. OLD
Vice President
Finance & Administration

TODD E. PETZEL
Vice President
Research

ALYSANN R. POSNER
Vice President
Special Projects

CARL A. ROYAL
Vice President &
General Counsel

CAROL B. SEXTON
Vice President
Public Affairs

JOHN E. WALSH
Vice President
GLOBEX Marketing

ERIC S. WOLFF
Vice President
Market Surveillance

KEITH M. WOODBRIDGE
Vice President & Managing Director
London Office

ANDREW A. YEMMA
Vice President
Media Relations

JOHN E. JUSKA
Controller

MAX J. SOLOMON
Assistant Secretary

CHICAGO MERCANTILE EXCHANGE CENTER
30 South Wacker Drive
Chicago, Illinois 60606
Telephone 312-930-1000
Facsimile 312-930-8219

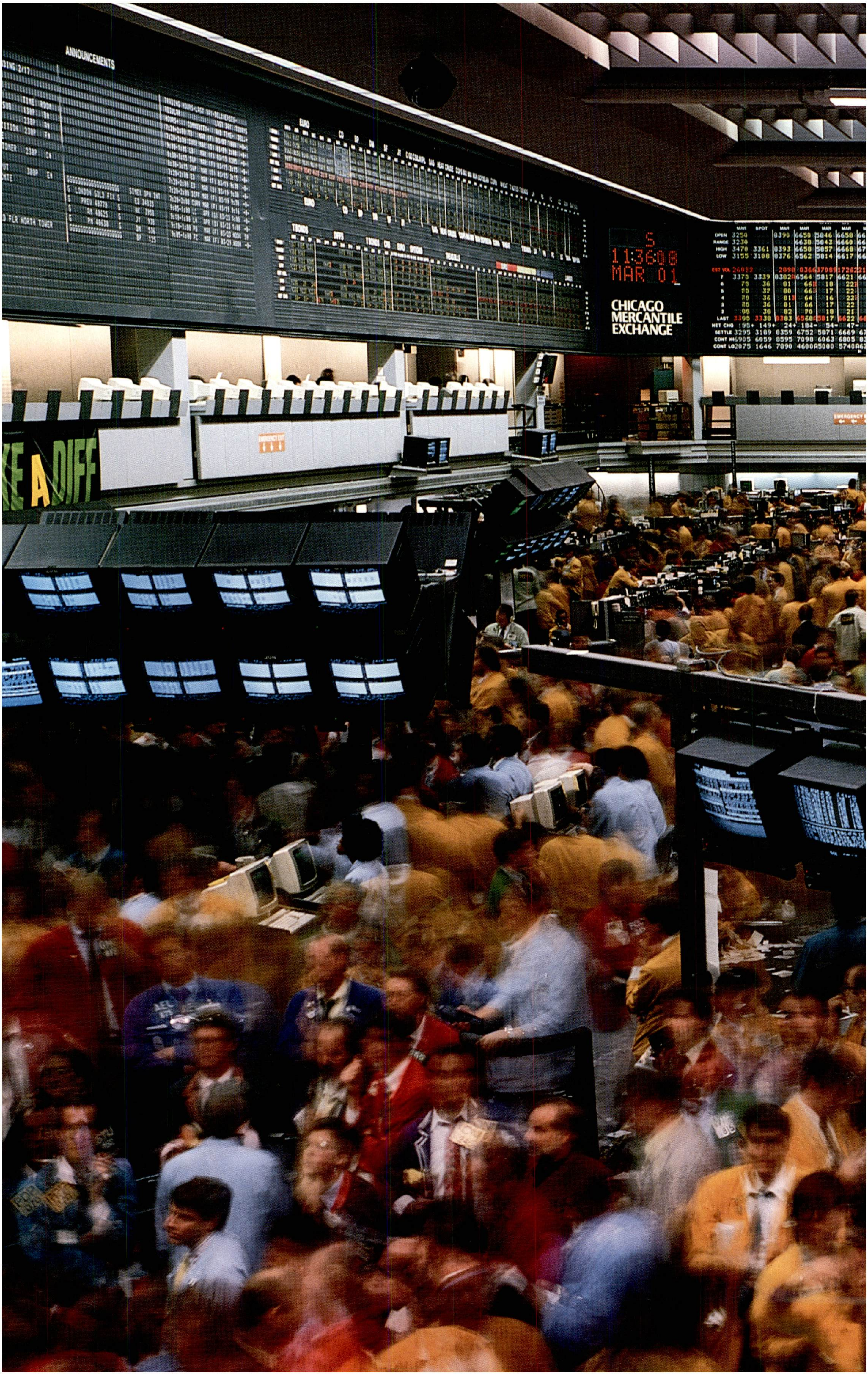
NEW YORK
67 Wall Street
New York, New York 10005
Telephone 212-363-7000
Facsimile 212-425-1337

WASHINGTON
2000 Pennsylvania Avenue, N.W.
Washington, D.C. 20006
Telephone 202-223-6965
Facsimile 202-466-3049

LONDON
27 Throgmorton Street, EC2N 2AN
London, England
Telephone 01-920-722
Facsimile 01-920-0978

TOKYO
3-3-1 Kasumigaseki, Chiyoda-ku 100
Tokyo, Japan
Telephone 03-595-2251
Facsimile 03-595-2244


BOTSIL CMX SIL MMINX OJ
$INX MUNI T NOTEST BONDS S&P 500
DM
SF
DIFFS
EMERGENCY EXIT


ANNOUNCEMENTS
CHICAGO
MERCANTILE
EXCHANGE