

## **ELECTRONIC CORPORATE MEMBERSHIP**

### **QUESTIONS & ANSWERS**

#### **What is Electronic Corporate Membership (ECM) and when does it go into effect?**

Electronic Corporate Membership is a new class of Exchange membership that allows proprietary trading firms and arcades to receive discounted fees for their proprietary trades that are done by registered traders.

Firms who join the Exchange under the new membership category will pay 44¢ for electronic trading of commodity, interest rate, foreign exchange and E-mini™ equity index products. They will pay 88¢ for electronic trading of full sized equity index products. These fees are inclusive of both GLOBEX<sup>®</sup> transaction fees and clearing fees. ECM firms will not be eligible for discounted fees on their open outcry trades, nor will they be allowed to access CME's trading floors. This new class of membership will be available starting April 19, 2004.

#### **What types of firms are eligible for ECM? What types of firms are not eligible?**

Proprietary trading groups and arcades are eligible for ECM. They will receive discounted fees for all electronic trading in accounts held in the name of the proprietary trading firm or arcade at their clearing firm.

Hedge Funds, Banks, FCMs and other firms that hold and/or manage third-party funds are not eligible for Electronic Corporate Membership.

Firms applying for Electronic Corporate Membership that have, as determined by CME, substantially similar beneficial ownership as a firm that has previously held 106.H. membership during the two years immediately preceding its application are not eligible for the 18-month waiver of the membership holding requirement. Firms that have, as determined by CME, substantially similar beneficial ownership as a current 106.H. member qualify for the 18-month waiver while the 106.H. member retains its membership.

#### **What firms qualify as Proprietary Trading Firms?**

A proprietary trading firm is a legal entity that trades its own capital. Trading funds must be exclusively firm funds and all trading must be done in the name of accounts owned by the firm. Traders must be owners of, employees of or contractors to the firm.

#### **What firms qualify as Arcades?**

An arcade is a legal entity which provides a legal, risk management and physical structure and trading facilities to traders in return for sharing of trading profits. Trading funds may be corporate funds or commingled trader/corporate funds, however, all trading activity of the arcade must be done in the name of accounts owned by the trading arcade. Traders must be owners of, employees of or contractors to the arcade.

\*Non-European operations of participating groups are not eligible for this program. In addition, entities trading with third party customer funds, such as commodity trading advisers, commodity pool operators, hedge funds, investment trusts, brokers, fund managers, commercial and investment banks, insurance companies, mutual funds, unit trusts and other similar entities are generally not eligible for the program. CME has sole authority to determine eligibility.

**What guidelines are used to determine if trading is proprietary?**

A proprietary account is evidenced through:

- All profits and losses of the account are written off to income
- All profits and losses of the account are taxed to the firm

In addition, for proprietary trading groups, CME requires that:

- The trader does not make any capital contribution to the account
- Only the firm's capital is at risk of loss; no traders can have their own capital at risk

**Are there any restrictions on who may trade a proprietary trading firm's accounts?**

To receive discounted transaction fees, trades must be done by registered traders. In general, trades done by any owner of, employee of or contractor to the proprietary trading firm may receive discounted fees. However, traders who are owners of the proprietary trading firm and have held CME, IMM, or IOM trading privileges during the two years immediately preceding their registration as a trader of the firm's accounts are not eligible to receive the discounted rates.

**Is there a W-2 requirement for traders trading a proprietary trading firm's accounts?**

No. However, the terms of any written employment agreement between the proprietary trading firm and its traders must support the classification of the trading activity as proprietary.

**Are there any other restrictions on what types of firms may become Electronic Corporate Members of the Exchange?**

No.

**Are there any restrictions on who may trade an arcade's accounts?**

In general, trades done by any owner of, employee of or contractor to the arcade may receive discounted fees. However, traders that have held CME, IMM, or IOM trading privileges during the two years immediately preceding their registration as a trader of the arcade's accounts are not eligible to receive the discounted rates.

**Is there a W-2 requirement for traders trading an arcade's accounts?**

No. However, the terms of any written employment agreement between the arcade and its traders must support the classification of the trading activity as being affiliated with the arcade.

**What are the membership holding requirements for ECM?**

Electronic Corporate Member firms will be required either to purchase one membership or lease two memberships in the division in which they wish to trade. However, this requirement will be waived through October 2005.

Firms applying for Electronic Corporate Membership that have, as determined by CME, substantially similar beneficial ownership as a firm that has previously held 106.H. membership during the two years immediately preceding its application are not eligible for the 18-month waiver of the membership holding requirement. Firms that have, as determined by CME, substantially similar beneficial ownership as a current 106.H. member qualify for the 18-month waiver while the 106.H. member retains its membership.

**If my firm signs-up for ECM, does it still need a clearing firm?**

Yes, all trades at CME are done through Exchange-approved clearing firms. All of the firm’s proprietary positions must be carried by a clearing member(s) in accounts separate from positions of affiliates, subsidiaries and other entities.

**How do firms sign-up for ECM?**

Firms wishing to sign-up for ECM should contact the Membership Department at (312) 930-3480.

**How does a firm register traders to receive discounted fees?**

Firms must submit a trader registration form for each trader and have their clearing firm assign a trader ID to each trader and enter each trader ID into CME’s Exchange Fee System. To receive discounted fees, the trader ID must be included in each GLOBEX transaction in FIX tag 50. Once the trader ID is entered into EFS, all transactions which include that trader ID will be eligible to receive discounted fees. .

**Can existing Rule 106.H member firms convert to Electronic Corporate Membership?**

A firm that is currently a Rule 106.H member firm that meets the qualification requirements for Electronic Corporate Membership (ECM) may change from Rule 106.H membership to ECM to receive the exchange fees associated with ECM, but are not eligible for the 18-month membership holding waiver. These firms will be required to comply with all of the rules and policies associated with ECM. They will be required to register all of the traders that trade their accounts on GLOBEX and will no longer be granted access to the CME trading floor.

**What is the fee schedule for ECM?**

<b>Product Category</b>	<b>Electronic Trading</b>	<b>Open Outcry Trading (GLOBEX + clearing)</b>
E-mini Equity Index Products	44¢	N/A
Full Size Equity Index Products	88¢	78¢
Interest Rate Products	44¢	64¢
Foreign Exchange Products	44¢	60¢
Agricultural Products	44¢	64¢