

CME Clearing House Expands Collateral Program to Enhance Financial Flexibility and Lower Performance Bond Costs for Clearing Members and Customers

CME Partners With Leading Money Center Banks to Expand Collateral Programs

CHICAGO, March 15 /PRNewswire-FirstCall/ -- Chicago Mercantile Exchange Inc. (CME) announced that its Clearing House, the largest futures clearing organization in the world, has issued guidelines for accepting a substantially more diverse pool of securities -- including issues of select certificates of deposit, corporate and municipal bonds and commercial paper -- as performance bonds from clearing firms conducting business at the exchange.

The change was facilitated by reforms to Commodity Futures Trading Commission (CFTC) Regulation 1.25 which broadened the alternatives available to futures commission merchants (FCMs) in their investment of customer funds. This in turn created opportunity for more diverse collateral programs at the CME Clearing House. Previously, acceptable securities were largely restricted to U.S. Treasury securities and select agency securities. All assets on deposit at CME's Clearing House will continue to be marked to market on a daily basis.

However, due to the relative complexity of evaluating and pricing the more diverse basket of securities, CME has contracted with the two largest custodial banks in the U.S., J.P. Morgan Chase and The Bank of New York, to serve as independent third party agents to administer these directed collateral programs -- commonly known in the industry as IEF3 and IEF4.

As of March 5, CME managed collateral deposits of approximately \$38.9 billion on behalf of clearing firms conducting business at CME and its business partner the Chicago Board of Trade (CBOT), for whom CME provides all clearing services.

"The new provisions of CFTC Regulation 1.25 significantly increase the collateral management flexibility for our clearing member firms who conduct business at CME and CBOT by allowing them to draw from a much broader pool of securities to meet their collateral requirements," said Kim Taylor, President of the CME Clearing House.

"The structure of the directed collateral programs and the services provided by The Bank of New York and J.P. Morgan Chase, ensure that the outstanding credit profile of CME's Clearing House will remain unchanged," said CME Managing Director Timothy Doar.

Any clearing firm participating in the programs must first notify CME of its intention to enroll and execute an agreement with the Clearing House. Both custodial banks guarantee to the CME and the clearing member firms that their collateral is monitored and appropriately valued at all times.

Operationally, IEF3 and IEF4 are similar, except that IEF3 involves a daily unwind and a cash leg in the collateralization process whereas IEF4 allows clearing firms to pledge eligible securities on an outright, or "free" basis. Additionally, both the IEF3 and IEF4 programs offer clearing member firms flexibility in substituting securities held in their account throughout the business day.

CME's Clearing House processes more transactions than any other derivatives exchange in the world. Clearing is the process by which the Exchange serves as counterparty to every trade executed on the exchange, thereby eliminated third-party risk for all trades. In its 106-year history, there has never been a default by a CME clearing member firm.

Last year, CME posted volume of 640 million contracts. At the start of 2004, CME also started providing third-party clearing services for all CBOT- traded contracts. In the first two months of 2004, CME provided clearing services for approximately 80 million contracts traded at CBOT. On average CME's Clearing House transfers \$1.4 billion per day among the accounts of its various customers, reflecting daily changes in portfolio valuations

Chicago Mercantile Exchange Inc. (www.cme.com) is the largest futures exchange in the United States. As an international marketplace, CME brings together buyers and sellers on its trading floors and GLOBEX[®] electronic trading platform. CME offers futures and options on futures primarily in four product areas: interest rates, stock indexes, foreign exchange and commodities. CME is a wholly owned subsidiary of Chicago Mercantile Exchange Holdings Inc. (NYSE: CME), which is part of the Russell 1000[®] Index.

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