

CME Equity Products

## CME Nikkei 225 Futures and Options on Futures



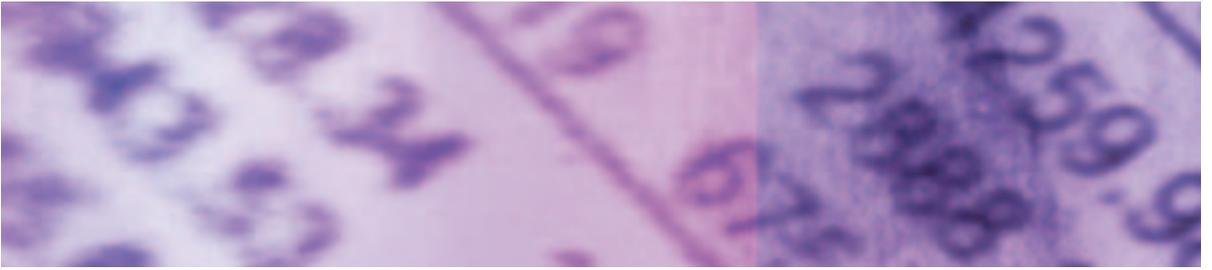
## Global Leadership in the Financial Marketplace

CME is the largest and most diverse financial futures and options exchange in the world – handling nearly 800 million futures contracts worth more than \$460 trillion in a single year. Founded in 1898, we serve the risk-management needs of customers around the globe by offering the widest range of benchmark financial products available on any exchange, traded via the CME Globex electronic trading platform and on our trading floors.

Our innovative, diverse products encompass major market segments – including interest rates, equities, foreign exchange, commodities and alternative investment products - and improve the way these markets work for customers everywhere.

## CME Equity Products

CME is the dominant marketplace for equity derivatives. More than 90 percent of all U.S. stock index futures and options trade at our exchange, presenting one of the world's most liquid trading environments for equity products. CME offers the widest array of equity futures and options on futures products, which include the S&P 500 and S&P MidCap 400 Indexes, the NASDAQ-100 Index, the Russell 1000 and Russell 2000 Indexes, and the Nikkei 225 Index.



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## About CME Nikkei 225 Futures and Options

In the 1980s, the Japanese marketplace rose to prominence, capturing the attention – and capital – of investors around the world. Today, Japan ranks as the second-largest marketplace in the world (in terms of capitalization), and continues to offer compelling opportunities for investors with a global perspective.

To help investors harness these opportunities, CME offers futures and options on futures on the Nikkei 225 Stock Average, the most widely followed and frequently quoted Japanese stock index. With one transaction, CME Nikkei 225 futures and options give investors access to the 225 top-rated, blue-chip Japanese companies tracked by the underlying index – including such well-known issues as Honda, Canon and Sony.

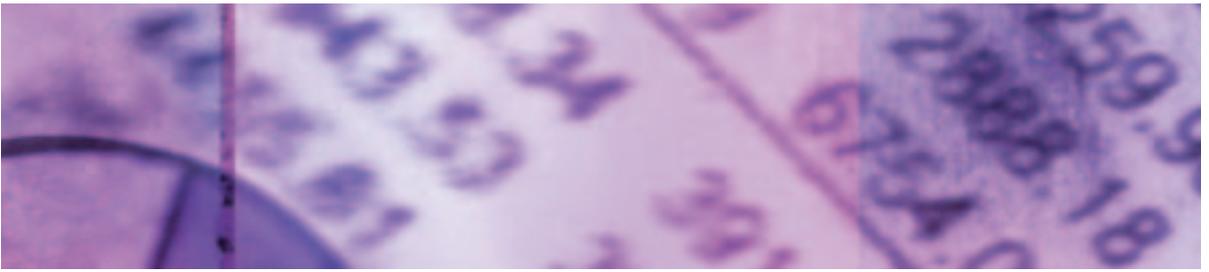
Though originally traded only via open outcry and in dollar-denominated contracts, the contracts have evolved to match changing customer needs. Today, CME customers have a choice of currencies and trading venues for this product:

### **Dollar-denominated CME Nikkei 225 futures and options**

- » Trade on the CME Globex electronic trading platform side-by-side with open outcry.
- » Trade electronically before and after open-outcry, providing an extended trading day for customers around the world.
- » Offer convenience for investors with portfolios comprised of dollar-based investments – removing the need for foreign exchange conversions.

### **Yen-denominated CME Nikkei 225 futures**

- » Trade only on the CME Globex electronic trading platform, virtually around the clock.
- » Offer the flexibility of clearing at either CME or the Singapore Exchange (SGX) as part of the Mutual Offset System (MOS). See page 3 for more on this feature.
- » Offer convenience for investors with portfolios comprised of yen-based investments – removing the need for foreign exchange conversions.



## About CME Nikkei 225 Futures and Options

CME Nikkei 225 futures products have experienced strong growth in volume and liquidity since their launch. In 2004, volume for CME Nikkei 225 futures contracts combined exceeded 1.4 million contracts. Through November 2005, year-to-date volume for CME Nikkei 225 futures contracts had exceeded 2 million contracts. Figure 1 shows annual volume of CME Nikkei 225 futures.

**Figure 1: Annual Volume of CME Nikkei 225 Futures (dollar- and yen-denominated)**

2000	455,298 USD-based
2001	476,300 USD-based
2002	571,200 USD-based
2003	765,463 USD-based
2004 <sup>†</sup>	1,239,010 USD-based 260,120 Yen-based
2005 YTD November*	1,572,050 USD-based 777,324 Yen-based

<sup>†</sup>Yen-denominated futures were first launched in 2004.

\*Through November 2005

Source: CME Equity Products

### The Mutual Offset System (MOS)

To provide customers in different time zones greater trading access and convenience, in 1984 CME entered into a special trading arrangement with the Singapore Exchange (SGX). This Mutual Offset System (MOS) allows traders to take positions on one exchange and offset them on the other. It also enables the two exchanges to provide around-the-clock access – and essentially, a single marketplace – for the contracts eligible for mutual offset: yen-based CME Nikkei 225, CME Eurodollar, CME Euroyen and CME Japanese Government Bond (JGB) futures.

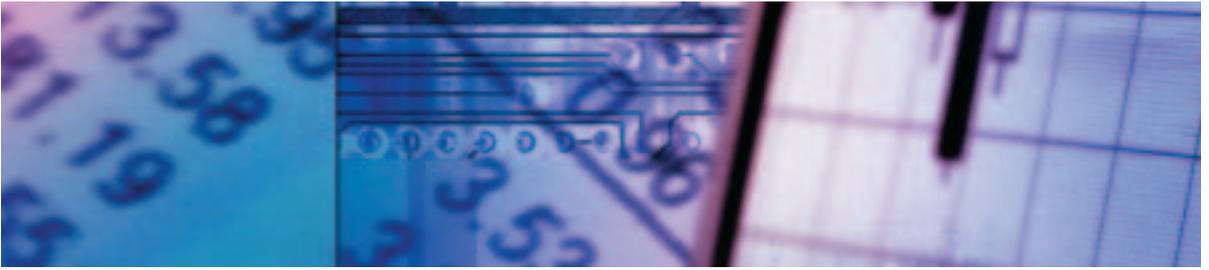
#### How the MOS Works

When yen-based CME Nikkei 225 futures trading is closed, a CME trader can use the MOS to execute an order through the Singapore Exchange as an extension of the CME electronic trading venue. Similarly, if SGX is closed, an SGX trader can use the MOS to execute an order through CME as an extension of the SGX trading venue. Traders must designate these as mutual offset transactions at the time the trades are executed. CME determines daily settlement prices for CME customer trades mutually offset at SGX. Similarly, SGX determines daily settlement prices for its customers' trades mutually offset at CME. Customers who use the MOS in yen-based CME Nikkei 225 futures:

- » May carry a position at SGX or CME.
- » Pay clearing fees only at the exchange that executes the order.
- » Post performance bond margins only with their "home" exchange.

Advantages of the MOS agreement between CME and SGX:

- » Immediate, uninterrupted access to CME Nikkei 225 futures contracts in different time zones.
- » Combined liquidity and depth of CME and SGX markets as well as the credit risk safety of the CME and SGX clearing houses.
- » Complete fungibility of contracts.
- » An easy, flexible and cost-efficient linkage process.



## Why Trade CME Nikkei 225 Futures and Options?

CME Nikkei 225 futures and options are powerful, versatile financial tools that offer the following:

### **Sector Exposure**

Customers can participate in Japanese equity markets with one trading decision, without taking up valuable time and resources to painstakingly select individual issues.

### **Risk Management**

Like other CME index futures, these products tend to closely track the underlying cash index, providing risk management and investing opportunities for financial institutions, investment managers, corporations, financial professionals and individual investors. Participants can minimize the systematic (market) risk of a portfolio with Japanese equities and protect the value of the portfolio during bear markets without incurring high transaction costs, taxes, and custodial fees.

### **Trading Strategies**

Traders can use these contracts to quickly and efficiently engage in global asset allocation strategies, including outright long or short positions, spreading against other indexes, hedging strategies, arbitrage, and cash equitization strategies.

### **Cost Efficiency**

Only a small upfront performance bond deposit is required, offering low transaction costs relative to buying each stock in the index.

### **Electronic Access/Ease of Trading**

These products trade on the CME Globex electronic trading platform virtually around the clock. Customers can access the platform through 740 direct connections in 27 countries as well as through eight telecommunications hubs – in London, Amsterdam, Dublin, Frankfurt, Gibraltar, Milan, Paris and Singapore – that provide reduced connectivity costs, increased accessibility, and fast, efficient trading.

### **Market Integrity/Fully Integrated Clearing**

CME Clearing matches and settles all trades and guarantees the creditworthiness of every transaction in our markets. Our integrated clearing function ensures the safety and soundness of our markets and helps differentiate us from our competitors. With CME Clearing serving as the counterparty to every trade, credit risk is virtually eliminated.