cme
Chicago Mercantile Exchange

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.

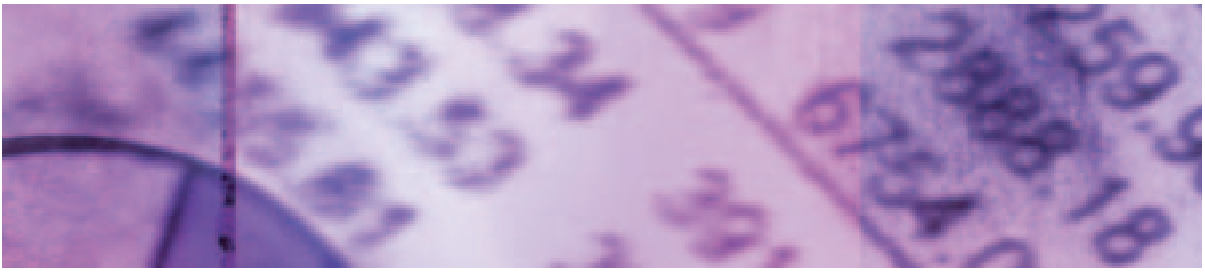
» Offer convenience for investors with portfolios comprised of dollar-based investments – removing the need for foreign exchange conversions.

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†	1,239,010 USD-based 260,120 Yen-based
2005 YTD November*	1,572,050 USD-based 777,324 Yen-based

†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.

About the Underlying Index

The Nikkei 225 Stock Average Index is one of the oldest Japanese market barometers, first calculated in May 1949 by Nihon Keizai Shimbun, Inc. (NKS), a leading Japanese financial information services firm.

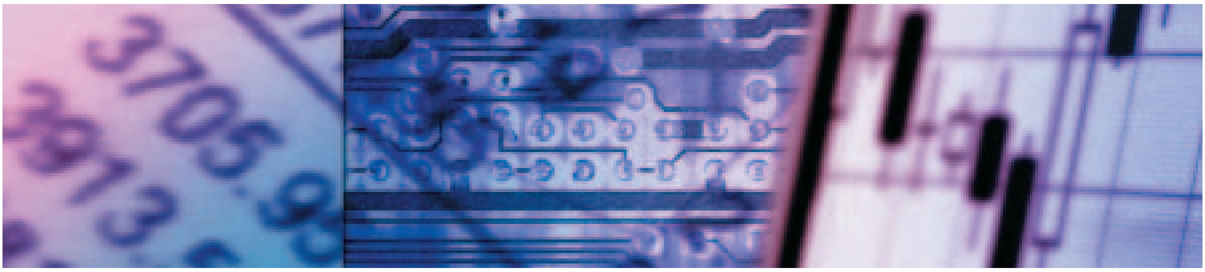
It is structured to reflect the Japanese stock market using the 225 top-rated, blue-chip Japanese companies listed in the First Section of the Tokyo Stock Exchange (TSE). Unlike the S&P and Russell Indexes, which are market-capitalization weighted, the Nikkei 225 Index is price-weighted. That means higher-priced stocks have a greater percentage impact on the Index than lower-priced stocks. The number of shares outstanding has no influence on the weightings. Figure 2 shows the top issues represented in the Nikkei 225 Index. Figure 3 (see page 6) shows month-end prices.

Today, the Japanese market as measured by the Nikkei 225 Stock Average Index ranks among the largest of the developed markets in terms of market capitalization. Figure 4 shows a comparison of key country benchmark indexes by market capitalization (see page 6).

Figure 2: Top 20 Stocks In The Nikkei 225 Index*

Company		Weighting in Index
1	Fanuc Ltd	2.72%
2	TDK Corp	2.54%
3	Advantest Corp	2.53%
4	Fast Retailing	2.36%
5	Kyocera Corp	2.24%
6	Softbank Corp	2.12%
7	KDDI	2.07%
8	Takeda Pharmaceutical Ltd	1.94%
9	Honda Motor Co	1.89%
10.	Canon Inc	1.82%
11.	Secom Co Ltd	1.78%
12.	Tokyo Electron	1.78%
13.	Shin-Etsu Chemical	1.67%
14.	Credit Saison Co Ltd	1.60%
15.	Toyota Motor Corp	1.58%
16.	CSK Holdings Corp	1.33%
17.	Eisai Co Ltd	1.33%
18.	NTT Data Corp	1.26%
19.	Astellas Pharma Inc	1.25%
20.	Seven & I Holdings Co Ltd	1.19%

*Source: Bloomberg. Data as of November 4, 2005.



About the Underlying Index

Figure 3: Nikkei 225 Stock Average Index Month-End Prices Through November 2005

Figure 4: Market Capitalization of Stock Indexes by Country

Country/City	Index	Total Market Cap (USD)*
USA	S&P 500	11.3
UK	FTSE 100	2.7
Japan	Nikkei 225	2.6
France	CAC 40	1.2
Canada	S&P/TSX	1.1
Germany	DAX	0.8
Hong Kong	Hang Seng	0.6
Mexico	IPC	0.2

Market cap in trillions of U.S. dollars – data as of November 4, 2005.
Source: Bloomberg.

Contract Specifications: CME Nikkei 225 Futures

Please note that there are some important differences in contract specifications among the products in the CME Nikkei 225 futures complex.

Contract Specifications

	Dollar-Denominated	Yen-Denominated
Ticker Symbols	Open Outcry: NK CME Globex Platform: NKD	Open Outcry: Not applicable CME Globex Platform: NIY
Contract Size	$ 5.00 x CME Nikkei 225 futures price	¥ 500 x CME Nikkei 225 futures price
Minimum Price Fluctuation (Tick)	Five index points = $25 dollars	Five index points = ¥ 2,500
Contract Months	Mar, Jun, Sep, Dec	Mar, Jun, Sep, Dec
Open Outcry Hours	08:00 - 15:15	Not applicable
CME Globex Trading Hours (Daylight Saving Time)	03:00 - 15:15 Reopens 15:30 - 16:30 Closes 16:30 - 17:00 Reopens 17:00 - 18:00	06:00 - 15:15 Reopens 15:30 - 16:30 Closes 16:30 - 17:00 Reopens 17:00 - 18:00
CME Globex Trading Hours (Central Standard Time)	02:00 - 15:15 Reopens 15:30 - 16:30 Closes 16:30 (Does not reopen at 17:00)	06:00 - 15:15 Reopens 15:30 - 16:30 Closes 16:30 (Does not reopen at 17:00)
Daily Settlement Time	All trades executed after 15:15 settlement time will have the next day's trade date	
Price Limits*	**Lead Month Settlement** 0 – 20,000 20,005 – 30,000 30,005 and up	**Daily Limit (Index Points)** 1,000 1,500 2,000
Position Limits	5,000 contracts	5,000 contracts
Last Trading Day	Business day preceding the second Friday of the contract month immediately preceding the day of determination of the final settlement price	
Final Settlement Price	Based upon a Special Opening Quote of the Nikkei 225 Stock Average referencing the opening values of constituent stocks	

*Applicable to both yen- and dollar-denominated contracts.

Contract Specifications: CME Nikkei 225 Options on Futures

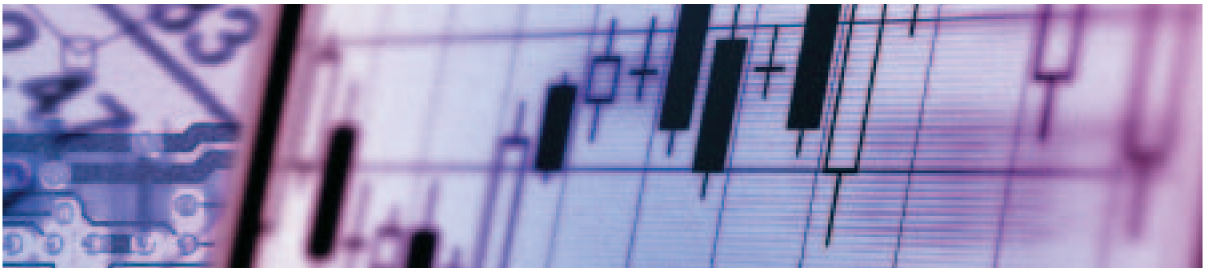
The contract specifications for options on dollar-denominated CME Nikkei 225 futures are as follows:

	Options
Ticker Symbols	Calls: KN Puts: JN
Underlying Contract	One dollar-denominated CME Nikkei 225 futures contract
Open Outcry Hours (Central Time)	08:00 - 15:15
Minimum Price Fluctuation (Tick)	Five index points ($25.00)
Contract Months	All 12 calendar months
Last Day of Trading	Quarterly options: Same date as underlying futures Other eight months: Third Friday of the contract month
Position Limits	5,000 futures-equivalent contracts net on the same side of the market in all contract months combined
Last Trading Day	Business day preceding the second Friday of the contract month
Final Settlement Date	Based upon a Special Opening Quotation of the Nikkei 225 Stock Average Index referencing the opening values of constituent stocks
Settlement Procedures	Cash settlement to the Special Opening Quotation of the Nikkei Stock Average Index
Option Exercise	***American Style.*** An option can be exercised until 7:00 p.m. Chicago time on any business day the option is traded. An option that is in-the-money and has not been exercised prior to the termination of trading shall, in the absence of contrary instructions, be delivered to CME Clearing by 7:00 p.m. on the day of determination of the Final Settlement Price, and be automatically exercised.

Example 1: Hedging with Dollar-Denominated CME Nikkei 225 Futures

Situation	A pension fund portfolio manager with $100,000,000 in assets has 5% of his portfolio in blue chip Japanese equities. Because he believes the Nikkei 225 Stock Average will decline by 10% or more in the next few months, he decides to hedge the $5,000,000 in Japanese exposure with CME dollar-denominated Nikkei 225 futures.
Strategy	Initiate a short hedge using dollar-denominated CME Nikkei 225 futures. Each futures contract has a notional value of $75,000 USD (price of CME Nikkei futures contract, 15,000 x $5 multiplier = $75,000)
Determining the Number of Futures Contracts Required	Number of contracts = $\frac{\text{Value of Japanese equities to hedge}}{\text{Notional value of futures contracts}}$ = $5,000,000/$75,000 = 67 CME Nikkei 225 futures contracts
Possible Outcomes	If the Nikkei 225 Stock Average drops as the portfolio manager expects, the profits on the short hedge would help to offset the losses incurred by his Japanese stocks – effectively protecting him from the downdraft in Japanese shares. However, if the Nikkei 225 Stock Average advances, the short hedge would show losses that would offset the likely gains in his portfolio – effectively preventing the portfolio manager from participating in any upside moves.

Note: Strategy I shows that hedging strategies have to be "managed." In a rising market the manager would have to reassess his bearish opinion and, if necessary, lift his hedge to enable the portfolio to take advantage of an advancing market. If the manager was correct and the hedge protected the portfolio against the downside, he would have to lift the hedge at some point if the market shows signs of turning up.



Example 2: Cash Equitization with Yen-Denominated CME Nikkei 225 Futures

Situation	A Japan-based money manager has ¥ 100 billion indexed to the Nikkei 225 Stock Average. A recent ¥ 1 billion inflow of investor money must be quickly and efficiently put to work or the manager risks underperforming his benchmark (i.e., the cash needs to be "equitized"). Moreover, the manager's research indicates continuing strength of the yen versus the U.S. dollar.
Strategy	¥ 1,000,000,000 cash equitization strategy
Prices Available	15,250 = Yen-denominated CME Nikkei 225 futures 15,300 = Nikkei 225 Stock Average spot price 15,315 = Nikkei 225 futures fair value estimate
Currency Risk	Yen/dollar currency risk, rendered moot by use of yen-denominated futures
The Choice	To buy a basket of equities indexed to the Nikkei 225 or purchase yen-denominated CME Nikkei 225 futures contracts
The Decision	Because the futures contract is trading below fair value, the manager decides to equitize the cash by purchasing yen-denominated CME Nikkei 225 futures.
Determining the Number of Futures Contracts Required	Number of contracts = Amount of investment to be equitized / Contract notional value (multiplier x index futures level) = ¥ 1,000,000,000 / ¥ 7,625,000 = 131 CME Nikkei 225 futures contracts

The manager will need to purchase 131 CME Nikkei futures contracts in order to effectively equitize ¥ 1 billion in exposure. Using futures contracts offers several advantages over his other choices:

» In general, executing a single futures contract is easier than trading 225 individual stocks.

» Futures frequently represent the lower cost alternative in terms of execution costs.

» Trading the product on the CME Globex platform offers the benefits of speed and efficiency.

» The manager gains the flexibility of a product with mutual offset availability in the Asian Time Zone via the Singapore Exchange.

Example 3: Spread Trading with U.S. and Japanese Stock Index Futures

Situation	A U.S.-based macro-strategy hedge fund manager is convinced that the bear market in Japan has ended and that the Nikkei 225 Stock Average is poised to outperform large-cap stocks in the U.S. Rather than assemble baskets of long and short positions, the manager decides to employ a spread trade using stock index futures.
Strategy	Go long Japanese equities using CME Nikkei 225 futures (dollar-denominated) Go short U.S. equities using CME E-mini S&P 500 futures

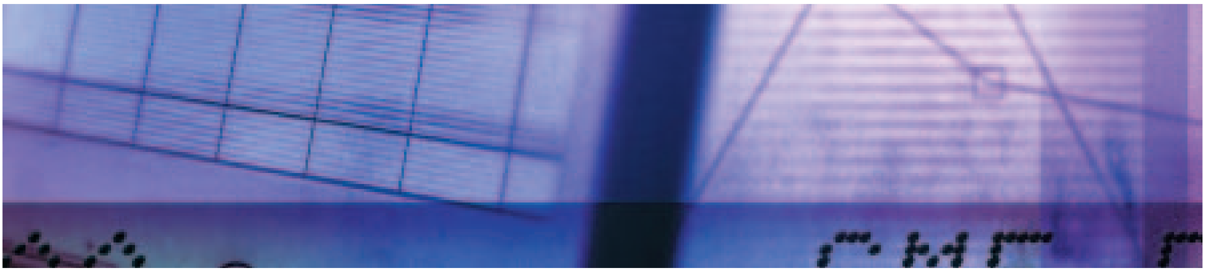
The advantages of such a spread strategy include the following:

» Using futures precludes the need to assemble large baskets of long and short equities.

» Using futures requires less capital, as the upfront performance bond margin would be lower than the Regulation T margins required with equities.

» Spreading allows the hedge fund the potential to profit from generally rising or falling global equity markets. The key factor in such a strategy is that Japanese issues must outperform U.S. large-cap issues by either going up more in a bull market or falling less in a bear market. However, losses would occur if U.S. large-caps outperformed Japanese equities.

» Using CME dollar-denominated products eliminates currency risk, thus allowing the trader to focus on equity market performance only.



Other Possible Strategies

The preceding three trading examples are only a small sample of the many strategies available to a knowledgeable investor. In addition to hedging, cash equitization and spreading, institutional investors can use CME Nikkei 225 futures and options on futures for a host of strategies, such as:

» Enhanced Indexing

» Strategic/Tactical Asset Allocation

» Creating Synthetic Money Market Instruments

» Futures/Options Combinations, Spreads, and Other Complex Strategies

» Futures/Options Arbitrage

» Cash Futures Index Arbitrage

» Futures/ETF Arbitrage

You can learn more about these types of trading strategies at the online CME Education Center, at www.cme.com/edu. There you will find online seminars and strategy papers available for download.

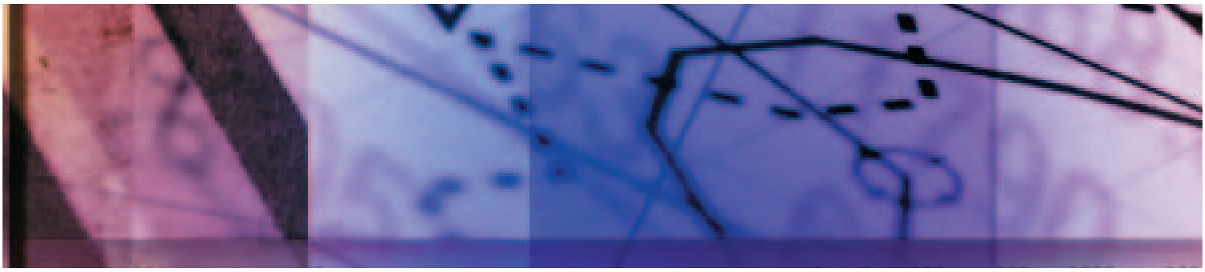
CME Nikkei 225 Futures vs. a Japanese Equity ETF

Exchange-Traded Funds (ETFs) have become popular with traders over the last decade. ETFs represent a basket of securities traded on an exchange and are similar to index-based mutual funds but are traded more like stocks. They offer distinct advantages over mutual funds, in that investors can employ a variety of trading strategies using these instruments.

When comparing CME Nikkei 225 products versus Japanese ETFs, however, the CME Nikkei 225 products offer advantages that may make it the better vehicle for traders to use, as the comparison below shows.

	CME Nikkei 225 Futures Complex	iShares MSCI Japan ETF
Where Traded	CME	AMEX
Average Daily Dollar Volume	$660,000,000/day	$163,000,000/day
Options	Yes	No
Extended Trading/MOS	Yes	No
Lower Capital Requirements	Yes	No
Yen/Dollar Risk	No (with USD-based futures)	Yes

Source: CME
As of November 2005.



Getting Started in CME Nikkei 225 Futures and Options

For additional information to help you get started trading CME Nikkei 225 futures and options on futures, please visit our web site at www.cme.com/equities. You will be able to access a number of brochures and online seminars as well as marketing and education materials that can answer your questions or help you to begin trading these CME equity futures and options on futures products. Also, if you would like to talk to a CME representative, please call our Customer Service Line at 1-800-331-3332 or contact your broker.

CME Publications

» CME Equity Index Futures and Options Informational Guide

CME Web Sites

» www.cme.com/equities

» www.cme.com/nikkei

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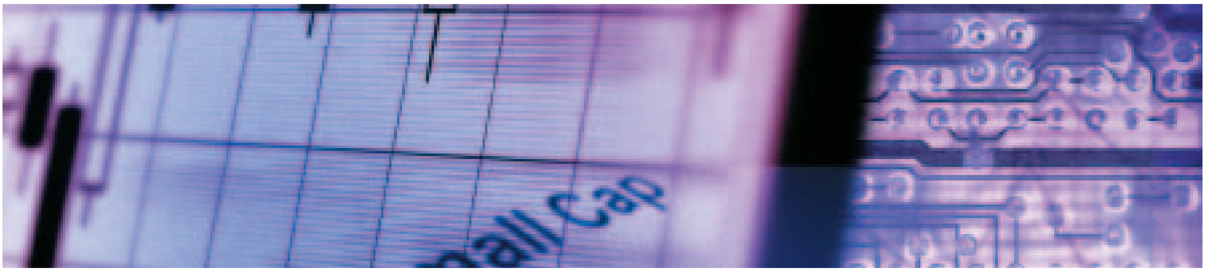
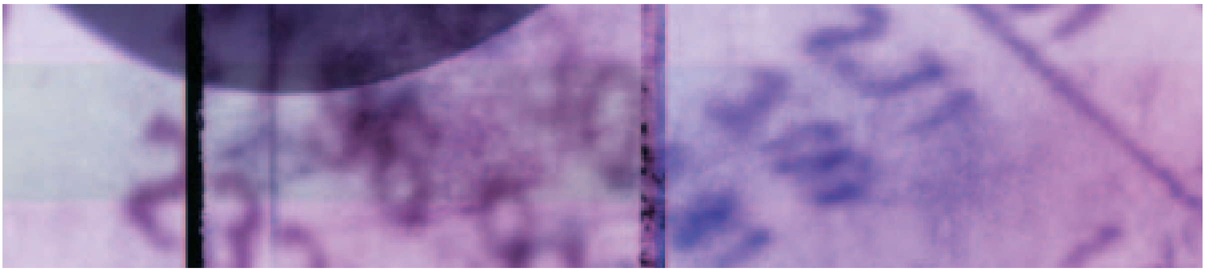


CME Equity Product Listing

CME offers a complete range of futures and options products based on a variety of different indexes, including:

- CME NASDAQ-100
- CME E-mini NASDAQ-100
- CME E-mini NASDAQ Composite
- CME E-mini NASDAQ Biotechnology
- CME Russell 2000
- CME E-mini Russell 2000
- CME E-mini Russell 1000
- CME E-mini MSCI EAFE
- CME Nikkei 225
- CME Futures on ETFs
- CME S&P 500
- CME E-mini S&P 500
- CME E-mini S&P Asia 50
- CME S&P MidCap 400
- CME E-mini S&P MidCap 400
- CME S&P SmallCap 600
- CME S&P/Citigroup Growth
- CME S&P/Citigroup Value
- CME SPCTR Futures
- CME Goldman Sachs Commodity Index (GSCI)
- TRAKRS (Total Return Asset Contracts)

For more information on these products, visit www.cme.com.



Futures trading is not suitable for all investors, and involves the risk of loss. Futures are a leveraged investment, and because only a percentage of a contract's value is required to trade, it's possible to lose more than the amount of money you've deposited for a futures position. Therefore, you should only use funds that you can afford to lose without affecting your lifestyle. And only a portion of those funds should be devoted to any one trade because you can't expect to profit on every trade.

All references to options in this brochure refer to options on futures.

The information within this brochure has been compiled by CME for general purposes only. CME assumes no responsibility for any errors or omissions. Additionally, all examples in this brochure are hypothetical situations, used for explanation purposes only, and should not be considered investment advice or the results of actual market experience.

All matters pertaining to rules and specifications herein are made subject to and are superseded by official CME rules. Current CME rules should be consulted in all cases concerning contract specifications.

Chicago Mercantile Exchange

IDEAS THAT CHANGE THE WORLD™

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