

Advisory Notice

Clearing House

FXMS 06-02

TO: Clearing Member Firms
FROM: Clearing House Department
SUBJECT: **Testing and Implementation Process**
DATE: August 21, 2006

This advisory summarizes the testing and implementation process for participants in the FXMarketSpace Early Adopter program, leading up to the launch of trading in early 2007. The process will be broken out into three phases.

- **Phase 1 -- Test Preparation -- starting August 21**
- **Phase 2 -- Initial Testing -- starting September 18**
- **Phase 3 -- Full-Scale Testing -- starting October 23**

FXMarketSpace will be the world's first centrally-cleared, global foreign-exchange (FX) marketplace. CME Globex will be the matching platform for FX MarketSpace, and all trades will be cleared by CME Clearing. At launch, trading will be for spot delivery in major CLS-eligible currency pairs.

In many respects, FXMarketSpace processing will conform to existing OTC cash market conventions -- not futures conventions. For example, trade quantities will be recorded as their true notional amounts, and physical settlement will be at original trade price. CME Clearing will also employ standard central counterparty risk management techniques, as adapted for FXMarketSpace. For example, CME Clearing will mark open positions to market, but gains and losses will be "collateralized", as opposed to settled with a daily cash payment. Note also that while all existing CME clearing member firms will be eligible to clear trades done in this new market, a special class of limited clearing membership, denoted "Class C" clearing membership, has been established to attract existing OTC cash FX market participants to FXMarketSpace.

The purpose of this document is to briefly outline the test approach to be utilized by CME Clearing to facilitate the roll-out of FXMarketSpace. Further information will be made available in the days ahead, consistent with execution times frames for particular phases of the test. Any questions the reader may have concerning the overall test approach, timings, or with the nomenclature utilized in this document may be directed to CME Clearing staff referenced in the "Contacts" section of this document.

Additional Resources

For more information on FX MarketSpace, including complete specifications for clearing and bookkeeping processing, please see CME Clearing's FX MarketSpace Resource page, at www.cme-ch.com/fxms, and the FX MarketSpace web site, at www.fxmarketspace.com.

Phase 1 -- Test Preparation

During this initial phase, the focus will be on preparations to assure that the testing process flows smoothly. In addition to fully detailed specifications, sample test data, including both FIXML clearing trade confirmation messages, FIXML trade register files, and FIXML settlement obligation messages, will be available. Firms may use these as a basis for their own coding and test preparations.

FXMarketSpace and CME Clearing staff will work with early adopters to define needed information required to participate in testing, including:

- Clearing firm data, whether for an existing class A or a new class C firm
- Trading firm numbers to be used for testing
- New iLink sessions and trader ID values
- Customer account and operator ID values
- Standing settlement instructions for physical settlement
- Testing contacts for trading, clearing and back-office functions

All testing, both for trading and for post-execution processing, will be performed in a new test environment dedicated to FXMarketSpace. This environment will be called the **Cert+1** environment to distinguish it from CME's normal trading and clearing certification test environments.

Note that in production, all customer account (FIX tag 1) values and operator ID (FIX tag 50) values must be registered with FXMarketSpace. For the testing process, firms will specify values for accounts and operators which will allow data to flow through their front- and back-end systems.

Trading access to CME Globex for FXMarketSpace will be via either iLink, or via a new FXMarketSpace browser-based trading interface. Test participants will need to establish connectivity to Globex via either or both of these methods.

Note that in production, existing iLink sessions may not be used to connect to Globex. All connections to Globex will be via new iLink® 2.x sessions dedicated to FXMarketSpace trading. Orders for normal CME or OneChicago products submitted via these sessions will be rejected. Similarly, FXMarketSpace orders submitted through a non-FXMarketSpace session will be rejected. Also, a new, separate Globex Market Data Platform channel will be provided for FXMarketSpace, and existing channels will not be affected.

For clearing and bookkeeping processing, firms will need to establish special FIXML queues, using IBM's MQ Series messaging software, to receive FIXML-based clearing trade confirmation messages. During the test preparation phase, test queues will be established, and firms will be able to verify basic ability to receive and send messages. Firms unfamiliar with IBM's MQ Series software and CME Clearing's use of it to communicate with firms should review specifications available at www.cme.com/files/s_mqmguide.pdf.

Phase 2 -- Initial Testing

The initial testing phase will allow firms to verify basic functionality, including:

- **Trading:** the ability to submit orders and receive real-time trade confirmation messages, via either iLink sessions connected to Globex, or via the new FXMarketSpace browser-based trading interface.
- **Bookkeeping and clearing:** the ability to receive and process near-real-time FIXML-based clearing trade confirmation messages, and end-of-day FIXML trade register files.

In summary, this first phase will allow firms to verify that they can trade, that they can book executed trades, and that they can reconcile their books with the clearing system.

As with any electronically-executed trade, firms will be able to modify the origin code and customer account either via message or via the clearing system's browser-based user interface.

In order to ensure that firms have test data for bookkeeping regardless of whether they are participating in trading testing, test cycles will include standard sets of test trades to be provided to all firms. The details of these trades will be provided in advance of each test cycle, and firms will be able to verify that they have been able to receive and book them correctly.

Phase 3 -- Full End-to-End Testing

The full testing phase will include all functionality from the initial testing, and will add testing opportunities for:

- **Physical settlement (deliveries):** FIXML-based physical settlement confirmation messages will be available as part of the testing, showing the exact details of settlement obligations resulting from the application of standing settlement rules to executed trades. Firms will be able to use these messages and associated reports to verify that their own determination of settlement obligations matches that of CME Clearing.
- **Transfers:** firms will be able to verify that they can receive and process FIXML messages for trades being transferred from one firm to another. Transfers are expected to be very rare, but the clearing system will provide this capability just in case.
- **Customer-level margining:** SPAN® risk parameter files will be available, and firms will be able to calculate margin requirements for customers including both risk and collateralized mark-to-market amounts.
- **Clearing-level financial settlement:** firms will be able to verify the clearing-level calculation of collateralized mark-to-market amounts, and to view clearing-level reports showing margin requirements and collateral available to meet those requirements.

This phase will also include opportunities for testing **holiday processing**, where trading and clearing are open for FXMarketSpace business but not for normal CME futures and options.

For more information

As described above, full details on clearing and bookkeeping processing for FXMarketSpace can be found at CME Clearing's FXMarketSpace resource page, at www.cme-ch.com/fxms.

The website for FXMarketSpace is at www.fxmarketspace.com.

Contacts

FXMarketSpace Contacts

Paul Lichter
(312) 648-3855
e-mail: Paul.Lichter@fxmarketspace.com

General CME Clearing FXMarketSpace Contacts

Michael Kobida (312) 454-8961 e-mail: mkobida@cme.com	Ed Gogol (312) 648-3674 e-mail: egogol@cme.com
--	--

Cheryl Martin
(312) 466-7437
e-mail: cmartin@cme.com

FXMarketSpace Testing Setup (MQ-Connectivity, trading firm, clearing confirm routing rules etc.)

Mahmoud Ajamia
(312) 634-1595
e-mail: majamia@cme.com

Mark Cox
(312) 648-8699
e-mail: mcox@cme.com

Clearing FXMS Advisory
06-02
August 21, 2006
Page 4 of 4

Neal Desai
(312) 634-8887
e-mail: ndesai@cme.com

FXMarketSpace Globex Contacts

Diana Toscas
(312) 338-2634
e-mail: dtoscas@cme.com

Avril McGuinness
(312) 207-2514
e-mail: amcguinn@cme.com