

Edgar Filing: CBOT HOLDINGS INC - Form 425

CBOT HOLDINGS INC  
Form 425  
March 22, 2007

Filed by Chicago Mercantile Exchange Holdings, Inc. pursuant  
to Rule 425 under the Securities Act of 1933, as amended, and  
deemed filed pursuant to Rule 14a-6 under the Securities  
Exchange Act of 1934, as amended.

Subject Company: CBOT Holdings, Inc.

Subject Company's Commission File No.: 001-32650

CME/CBOT Proposed Merger  
March 22, 2007  
Investor Presentation

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Discussion of Forward-Looking Statements

Forward-Looking Statements

This

presentation  
may  
contain  
forward-looking  
information  
regarding  
Chicago  
Mercantile  
Exchange  
Holdings  
Inc.  
and  
CBOT  
Holdings,  
Inc.  
and the  
combined  
company  
after  
the  
completion  
of  
the  
merger  
that  
are  
intended  
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forward-looking  
statements  
provided  
by  
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Securities  
Litigation  
Reform  
Act  
of  
1995.  
These  
statements  
include,

but  
are  
not  
limited  
to,  
the  
benefits  
of  
the  
business combination  
transaction  
involving  
CME  
and  
CBOT,  
including  
future  
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and  
operating  
results,  
the  
new  
company's  
plans,  
objectives, expectations  
and  
intentions  
and  
other  
statements  
that  
are  
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historical  
facts.  
Such  
statements  
are  
based  
on  
current  
beliefs,  
expectations, forecasts  
and  
assumptions  
of  
CME  
and  
CBOT's

management  
which  
are  
subject  
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risks  
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uncertainties  
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cause  
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outcomes and  
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proposed  
transaction  
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of  
the  
expected  
financial  
performance of  
CME  
following  
completion  
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proposed  
transaction;  
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benefits  
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and  
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laws  
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and  
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operations.  
For  
more  
information  
regarding  
other  
related  
risks,



see  
Item  
1A  
of  
CME's  
Annual  
Report  
on  
Form  
10-K  
for  
the  
fiscal  
year  
ended  
December  
31, 2006.  
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<http://www.sec.gov>  
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Except  
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Additional  
Information  
CME  
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CBOT  
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Exchange  
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SEC's  
Web  
site  
(www.sec.gov)  
or  
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Chicago  
Mercantile  
Exchange  
Holdings  
Inc., Shareholder  
Relations  
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Chicago,  
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CME  
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directors,  
executive  
officers  
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employees  
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proposed  
transaction.  
Information  
about  
CME's  
directors  
and  
executive  
officers  
is  
available  
in  
the  
definitive  
joint  
proxy statement/prospectus.

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Statements  
included  
in  
this  
presentation  
relating  
to  
the  
ICE  
offer  
reflect  
the  
views  
of  
CME's  
management.

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solicitation  
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shall  
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securities  
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jurisdiction  
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solicitation  
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or  
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jurisdiction.  
No  
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securities  
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meeting  
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of  
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of  
the  
U.S.  
Securities  
Act  
of  
1933,  
as  
amended.



Terry Duffy  
Executive Chairman

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CME's superior offer has larger and more immediate benefits to CBOT shareholders and members

Solidifies combined company's status as the premier global exchange, positioning combined company  
For continued growth as a consolidator rather than a target  
As the partner of choice for matching and/or clearing ASP opportunities

Creates \$70M in operational and cost efficiencies for customers

Creates immediate scale advantages

Strengthens Chicago as the leader in derivatives

Focuses the combined company on generating growth, rather than duplicative integration and development  
Globally

Builds on over 200 years of innovation to the benefit of customers and shareholders

\$125+ million in estimated annual cost savings

Expected to be accretive to GAAP earnings 12  
18  
months post-close

Potential revenue synergies to be shared by combined shareholders

Enhances operating leverage

Strategically

Attractive

Financially

Compelling

Combination will establish the world's largest derivatives exchange to the benefit of shareholders, members and customers

In over-the-counter (OTC) markets

Craig Donohue  
Chief Executive Officer

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Better together

ICE's proposal

offers CBOT shareholders a weaker currency

will limit CBOT's comparative future growth potential and value creation opportunities

exaggerates the estimated synergies

poses significant execution and integration risks that could adversely affect customers and shareholders

Operationally

Strategically

Financially

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OTC derivatives markets are larger and growing faster

\$0

\$50,000

\$100,000

\$150,000

\$200,000

\$250,000

\$300,000

DEC 2001

DEC 2003

DEC 2005

(\$ in billions)

\$23,764

\$111,178

\$36,787

\$197,167

\$57,816

\$297,670

Exchange-traded

OTC

CAGR 2001-2005

OTC

28%

Exchange Traded

25%

Total Value Outstanding Positions

(measured in notional value as of year-end)

Source: March 2007 BIS (Bank of international Settlements)

Quarterly Review



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CBOE exercise rights

ICE has proposed same exact structure

ICE has not identified specific changes

ICE offered CBOT shareholders no guarantees or promises

CBOE has not consented to ICE's proposal

ICE's vague structure to preserve CBOE exercise rights is not a differentiating factor

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WTI Average Daily Volume

NYMEX on CME Globex vs. ICE

CME successfully integrates NYMEX, and takes market

share back from ICE

(by month; notionally adjusted; contracts in thousands)

0

100

200

300

400

JUN

06

JUL

06

AUG

06

SEP

06

OCT

06

NOV

06

DEC

06

JAN

07

360

38

185

116

NYMEX WTI

on CME Globex

ICE WTI

The

Electronic

Trading

Comparison

FEB

07

MAR

07

To date

Source: Derived from NYMEX web site and CME data

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Monthly

Average Daily Volume

Total ICE Futures & NYBOT

(contracts in thousands)

CME FX Volume equals ICE/NYBOT total volume,  
and shows faster growth

0  
200  
400  
600  
800  
JUL  
06  
SEP  
06  
NOV  
06  
JAN  
07  
MAR  
07  
529  
700  
0  
200  
400  
600  
800  
373  
721

Monthly CME FX ADV  
vs. NYBOT FX ADV  
(contracts in thousands)

CME  
offers  
extremely  
liquid  
FX  
markets

FX  
is  
CME's  
third  
largest  
product and is currently averaging the same amount of volume  
as all ICE futures and all NYBOT combined

JUL  
06  
SEP  
06  
NOV  
06

JAN

07

MAR

07

14

CME FX

NYBOT FX

Source: CME data, ICE and NYBOT websites

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Diversity of ADV and Revenue

CME Q406 ADV

Interest Rates



56%  
Equity Mini  
30%  
Equity Standard  
3%  
FX  
10%  
Commodities & Alt  
Investments  
1%  
ICE/NYBOT Q406 ADV  
Energy  
87%  
Soft Commodities  
13%  
CME Q406  
Clearing & Transaction Revenue  
Interest Rates  
44%  
Equity Standard  
6%  
Equity Mini  
32%  
FX  
16%  
Commodities & Alt  
Investments  
2%  
ICE/NYBOT Q406  
Clearing & Transaction Revenue  
Energy  
84%  
Soft Commodities  
16%

Sources: Company press releases and SEC filings

ICE volume and revenue are limited to the energy and soft commodity markets

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In a challenging market, ICE's unseasoned stock  
declined 20%

ICE's volatility is 30% higher than  
CME's

Since ICE's IPO, ICE's P/E has  
fluctuated more than 26 points vs.  
CME's fluctuation of 10 points over  
the same time period

ICE has a limited track record as a  
public company  
ICE has been public for only 1.5 years  
(CME has been public for over 4 years)  
CME has a history of exceeding  
earnings expectations

---

1.  
February 21, 2007 represents ICE's all time high share price.

2.  
Exchange  
index  
includes  
TSX,  
OMX,  
ASX,  
Hong  
Kong  
Exchange,  
Singapore  
Exchange,  
Deutsche  
Boerse,  
Euronext,  
Bursa  
Malaysia,  
LSE,  
Bolsas  
y  
Mercados,  
ISE  
and  
NYSE.

CME's stock is less volatile than ICE's  
Indexed Price Performance  
Quality of Currency Characteristics

2/21/2007

2/28/2007

3/7/2007

3/14/2007

70

75

80

85

90

95

100

105

Indexed Price

(19.49%)

ICE

(9.16%)

Exchange

Index

(0.58%)

CME

(4.67%)

S&P 500

(1)

(2)

Source: Lehman Brothers

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Sources: Company press releases and SEC filings

We operate in a global marketplace

0

1,000  
2,000  
3,000  
4,000  
5,000  
6,000  
5,313  
3,269  
4,628  
2,043  
897  
604

Note:

Individual equity options excluded

CME is the largest global derivatives exchange and has a strong partnership with the leading energy exchange, while

ICE/NYBOT is not the largest in any segment

Q406 Average Daily Volume

By Exchange

(contracts in thousands)

CME

CBOT

Eurex

ENXT

NYMEX

ICE/

NYBOT

Interest rates

Equities

Foreign exchange

Commodities

Energy

Metals

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14

\$0

\$45,000

\$90,000

\$135,000

\$180,000

\$225,000

\$270,000

Interest

Rates

FX

Credit

Default

Equity-linked

Commodity

OTC opportunities are larger with CME

Source: June 2006 Notional Value Outstanding

per March 2007 BIS Quarterly Review

\$262,296

\$38,111

\$20,352

\$6,783

\$6,394

OTC opportunities in CBOT will be more effectively pursued

by leveraging CME's resources, experience and investments

across both large and small OTC market segments

CME Clearing 360

FXMarketSpace FX cash

clearing and interest rates

swaps clearing

Alternative Markets

Trading and clearing of

weather, real estate,

economic indexes

commonly traded in

OTC markets

Credit Derivatives

Trading and clearing for the

\$20 trillion (outstanding)

OTC credit derivatives

market

The \$250 trillion

(outstanding) interest

rate swaps market

OTC Cash FX trading -

\$2 trillion in daily turnover



Jamie Parisi  
Managing Director & Chief Financial Officer

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CME/CBOT planned synergies

Technology

Related

50%

Trading Floor

/ Operations

15%

Administrative

35%

Cost Savings Areas

Total: \$125+ million

Expected cost savings of \$125+ million annually,  
beginning in year two post-close

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ICE's exaggerated synergies

The \$50M revenue synergies are highly speculative

ICE provided no quantifiable basis for revenue synergies  
CME's revenue synergies with CBOT would be greater driven by CME  
Globex distribution and speed, as well as adjacency to sizable OTC  
markets in CME's multiple asset classes

The \$100M operational expense synergies are questionable  
ICE provided limited insight as to how synergies would be achieved  
ICE claims that they can remove 43% of the combined expenses,  
excluding d & a -  
well outside the range of precedent transactions  
CME believes a reasonable range is closer to \$40M to \$65M versus  
CME/CBOT highly developed synergy estimate of \$125M+

The \$90M clearing synergies are unrealistic  
ICE has not included significant expenses necessary to handle the  
increased clearing volume  
Some of the synergies ICE is claiming could come from CBOT's  
standalone alternatives  
CME believes a reasonable range could be \$20M to \$40M  
ICE's synergy estimates are not based in reality

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ICE's cost synergies are inflated relative to other  
mergers

ICE/CBOT cost synergies represent 43% of the combined expense base

versus the 9% average for comparable deals

43%

19%

10%

6%

6%

4%

9%

7%

13%

11%

0%

5%

10%

15%

20%

25%

30%

35%

40%

45%

50%

ICE / CBOT

CME / CBOT

Nasdaq /

INET ECN

NYSE /

Euronext

ASX / SFE

ICE / NYBOT

Deutsche

Börse /

Clearstream

NYSE /

Archipelago

OM Gruppen

/ HEX

Euronext /

LIFFE

% of Combined

Expense Base

Average: 9%

(Excluding ICE / CBOT)

Source: Lehman Brothers

Note: Excludes depreciation and amortization

Kim Taylor  
Managing Director &  
President CME Clearing



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Benefits of CME Clearing

Offers rock solid operational reliability

Provides high degree of risk management and financial integrity

Delivers low-cost services

Leverages scalability and adaptability

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Operational capacity and reliability

CME has operational capacity to clear business of

CBOT's magnitude

NYBOT would need to scale up clearing capacity on day 1

more than 18 times to accommodate CBOT average volume

Notes: CME and CBOT YTD through 3/16/07, NYBOT YTD through 2/28/07. NYBOT Average Transactions are CME estimated

Average Transactions

Average Volume

1,400

809

61

0

500

1,000

1,500

CME

CBOT

NYBOT

13x

6,700

3,900

212

0

2,000

4,000

6,000

8,000

CME

CBOT

NYBOT

18x

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Operational capacity and reliability

Clearing operational capacity & reliability at *peak*

activity levels is extremely critical to CBOT business  
NYBOT would need to scale up clearing capacity by 30 times to  
handle CBOT peak volume

Peak Transactions

Peak Volume

Note: CME and CBOT Peak volumes occurred on 2/27/07, NYBOT peak volume occurred on 2/9/07. NYBOT Peak Transact

CME estimates

2,600

2,000

106

0

1,000

2,000

3,000

CME

CBOT

NYBOT

19x

13,700

11,100

373

0

2,500

5,000

7,500

10,000

12,500

15,000

CME

CBOT

NYBOT

30x

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Risk management and financial integrity

CME offers important innovation over clearing houses

that offer solely net or gross margining:

CBOT house portfolios are margined net by CME

CBOT customer portfolios have the choice between  
net margining or gross margining

For some portfolios, net margining is more efficient  
and for other portfolios, gross margining is more  
efficient

ICE's net margining proposal is a step backwards from CME's  
optimal margining innovation



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Risk management and financial integrity

CME Clearing is widely recognized as the industry leader in

risk management

109 year, default-free  
history

Industry leading risk management:

Real-time 24 hour risk monitoring

Stress testing at the clearing member & large client levels

Specialized real-time risk monitoring for ATS & other large  
day traders

On-site risk reviews of clearing member firms

Real-time risk management support to clearing members

Proven crisis management

CME has real-time risk management 24 hours a day, 6 days a  
week, ensuring early detection of large risk exposures

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Risk management and financial integrity

CME Clearing has extensive experience & capabilities to risk

manage business of CBOT's scope & scale

CME

CBOT

NYBOT

Open Interest

1

:

44.5M

15.9M                      2.5M

Average daily MTM:

\$1.8B

\$.05-\$.1B (est.)

Record MTM:

\$8.5B

<\$.2B (est.)

Note:

1. As of February 28, 2007. NYBOT February 2007 Monthly Volume Report, CBOT February 2007 Monthly Open Interest Report

CME Volume Tracker

CME is experienced with managing mark-to-market

flows 40 times greater than NYBOT

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Cost and capital efficiencies

The combination of CME & CBOT products under a single clearing

house resulted in significant capital savings & efficiency for the market

Potential Margin Efficiencies Lost:

\$700 million-\$1 billion +

Potential Guarantee Fund Requirements:

\$550 million

NYBOT Ad 1

Req:

\$350 million

CME Savings Lost:

\$200 million

Total disruption to capital efficiency:

\$1.3 -

\$1.6 billion

ICE cross-margining savings of \$50 million doesn't compare to margin savings with CME/CBOT

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Growth capabilities

With its current capabilities, CME Clearing has created a strong

foundation to continue growing the combined business of the CME & CBOT

Clearing provides the following capabilities to support or drive growth in our combined business base:

Operational scale

Product scope

Functional richness

Deep risk management experience

OTC growth capabilities (Clearing360)

NYBOT's focus will be on absorbing rather than growing the CBOT business

5 of the top 10 CBOT volume leaders are not NYBOT clearing members



Phupinder Gill  
President & Chief Operating Officer

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CME ready to integrate, while ICE offer has significant execution risk

Slow Integration

66%  
Low revenues,  
cash, profitability  
125  
PWC  
Poor Strategy  
50%  
Poor cash flow  
relative to peers  
50  
Healy et. al.  
Weak Core Business  
Large Target Size  
Overly Optimistic  
Slow Integration  
77%  
Failure to earn  
back capital in 3  
years  
116  
McKinsey & Co.  
Poor Planning  
Poor Communication  
Slow Integration  
70%  
Would not buy  
again  
150  
Mitchell/EIU  
Lack of Vision  
Lack of Alignment  
Slow Integration  
63%  
Poor shareholder  
returns after 3  
years  
215  
Mercer  
Causes  
% Failed  
Definition of Failure  
Sample  
Size  
Study  
2/3 s of mergers fail to increase shareholder value due to poor  
integration execution  
Source: PRITCHETT, LP

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30

0

20

40

60  
80  
100  
120  
'02  
'03  
'04  
'05  
'06  
'07

Source: CME 2006 and 2003 10-Ks, CME press release dated 1/30/07, ICE 8-K filed 3/13/07, ICE 2006 10-K, ICE S-1 filed 3/22/05, and ICE press release dated 2/7/07.

To support scaling of technology infrastructure, CME has spent \$360M over the past 5 years in capital reinvestment, while ICE has spent less than \$70M

0  
20  
40  
60  
80  
100  
120  
'02  
'03  
'04  
'05  
'06  
'07

CME

ICE

(\$mm)

(\$mm)

Guidance

Guidance

(For Combined

Company)

\$110-115

\$88

\$56

\$25-30

\$20

\$21

Capital expenditures comparison

Capital expenditures





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Potential for revenue synergies from international growth are larger with a CME/CBOT combination

CME has global products across asset classes

CME has expanded international sales and marketing staff in the last year

Amsterdam

Dublin

Paris

Gibraltar

London

Milan

Singapore

Europe

Asia Pacific

CME has international relationships in China, India and Singapore

Equities-Nikkei 225, MSCI EAFE, S&P 500

Interest rates

Eurodollar, Euroyen

FX

Euro, Yen, Chinese Reminbi, Korean Won

CME has telecommunications hubs globally

Algeria,

Argentina,

Australia,

Austria,

Bahamas,

Barbados,

Belgium,



Belize,  
Bermuda,  
Brazil,  
British  
Virgin  
Islands,  
Bulgaria,  
Canada,  
Cayman  
Islands,  
Chile,  
China,  
Costa  
Rica,  
Cyprus,  
Czech  
Republic,  
Denmark,  
Ecuador,  
Egypt,  
Finland,  
France,  
Great  
Britain,  
Germany,  
Gibraltar,  
Greece,  
Hong  
Kong,  
Hungary,  
Iceland,  
India,  
Indonesia,  
Iran,  
Ireland,  
Isle  
of  
Man,  
Israel,  
Italy,  
Jamaica,  
Japan,  
Jordan,  
Kuwait,  
Lebanon,  
Liechtenstein,  
Luxembourg,  
Macau,  
Madagascar,  
Malaysia,

Mauritius,  
Mexico,  
Monaco,  
Mongolia,  
Namibia,  
Netherlands,  
New  
Zealand,  
Norway,  
Pakistan,  
Peru,  
Philippines,  
Poland,  
Portugal,  
Puerto  
Rico,  
Republic  
of  
Korea,  
Romania,  
Russian  
Federation,  
Saint  
Pierre  
and  
Miquelon,  
Saudi  
Arabia,  
Senegal,  
Seychelles,  
Singapore,  
Slovakia,  
South  
Africa,  
Spain,  
Sweden,  
Switzerland,  
Taiwan,  
Thailand,  
Turkey,  
United  
Arab  
Emirates,  
US,  
US  
Virgin  
Islands,  
Venezuela

CME has Globex distribution of institutional screens spanning 88+

countries and foreign jurisdictions

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CME Globex has the capacity to handle large  
transaction volumes at a high speed

Globex Transaction Volume (2003 to 2007)

50,000  
100,000  
150,000  
200,000  
250,000  
300,000  
350,000  
400,000

Open Interest

Matched Trades

Order Volume vs Speed

200,000  
400,000  
600,000  
800,000  
1,000,000  
1,200,000

0.00  
20.00  
40.00  
60.00  
80.00

100.00  
120.00  
140.00  
160.00  
180.00  
200.00

Total Order Volume

Avg Futures RTT

Avg Options RTT

MD Feed Handler

We had many challenges both organizationally and  
technologically

(referring to the NYBOT acquisition)

While orders/transactions grew by a factor of 30,  
the average round trip time fell 80% from its 2004 level

-

Chuck Vice, ICE President & COO, February 7, 2007

Source: CME company database

Source: Chuck Vice, ICE President & COO, ICE 4Q2006 earnings conference call transcript, February 7, 2007

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CME: Robust functionality for fast, protected and  
efficient trading

Pro rata with configurable

TOP minimum/maximum quantity or match %-age  
Pro rata small lot aggregation  
Auction or automated request for cross  
Pro rata with or without TOP (and LMM)  
LMM with or without TOP  
CME Offers Critical Customer Protection Functionality  
CME Offers Robust and Efficient Matching  
Market or stop order with protection points  
Mass quote governor  
In-flight fill mitigation logic  
eStop  
option support  
Stop spike protection for futures  
Covered delta and side reasonability check  
Market maker traded quantity, execution and new quote fill protections  
Mass quote cancel on disconnect  
ICE  
CME  
CME Offers Theoretical Price Function for Spread Leg Price Assignment

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Customers win with CME

A CME transaction



Retains Common Clearing Link Efficiencies

CME/CBOT retains \$700M -  
\$1B+ cross margining efficiencies versus  
ICE/CBOT estimated \$50M

Keeps costs lower for end users and firms

CME/CBOT transaction estimated to generate at least \$70M in annual savings

ICE

transaction

requires

interfaces

&

deposits

with

two

clearing

houses

rather than one, as well interface to ICE electronic platform

Gives CBOT customers access to Globex

Allows trading of complementary products on a single platform

Greatly reduces operational and financial risk from migrating  
clearing

Clearing firms and market users, not ICE/CBOT, will bear this risk

We are putting tremendous demands on traditional

NYBOT clearers and customers

(to bring the products

up electronically)

Jeff Sprecher, CEO, 2/7/07

Source: Jeff Sprecher, ICE CEO, ICE 4Q2006 earnings conference call transcript, February 7, 2007

Appendix

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CME Clearing has proven to be a global leader in  
risk management

Black Monday

Dow fell 22% on October 19, 1987

Drexel Burnham Lambert Parent

December 21, 1988 pleaded

guilty to insider trading. February 13, 1990 DBL filed for  
bankruptcy

Barings Bank

Declared insolvent on February 26, 1995 after

failing to find a buyer. Afterward, ING agrees to buy the bank for  
\$1

LTCM

September 1, 1998 Meriwether discloses the fund's  
massive losses and limits client withdrawals. September 23rd, a  
consortium of banks agrees to inject \$3.5B in funds at the NY  
Federal Reserve Office

Refco Parent

October 10, 2005, Refco discloses \$430 million in  
hidden debt. October 17th, Refco filed for bankruptcy

Amaranth/Motherrock

CME facilitated daily information sharing

among multiple exchanges pertaining to liquidation & transfer of  
positions, as well as loss coverage

CME played a central role in the successful conclusion of a  
number of events

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NYBOT and the Klein default

First West owned by NYFE (a division of NYBOT) Chairman

Norman Eisler defaults causing Klein to default to NYBOT on May 17, 2000

The firm is undercapitalized (pro forma) by \$3.8 million

Mr. Eisler settles with CFTC for \$4.9 million for price manipulation and false reporting

CFTC also issues an order against NYFE (and \$75,000 penalty) for failure to enforce its own rule for determining settlement prices

Klein files a \$100 million lawsuit against NYBOT blaming the exchange for the default due to Mr. Eisler's role in setting settlement prices and lackadaisical crisis response by exchange senior management

Unlike NYBOT, CME Clearing's approach to risk management has prevented any CME clearing firm defaults

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Operational functionality

CBOT business depends heavily on post-trade processing

functionality:

20% of CBOT customer volume is for Give-up/APS

Trade transaction account for only approximately 20% of total clearing transactions (peak clearing transactions of 15M for CME & 7.4M for CBOT)

CME has supported Give-up functionality for 15 years & a 2-way API for the past 5 years. Both are critical to processing CBOT business

State-of-the-art broker billing and give-up payment systems

Ability to interface with electronic give-up agreement system

Industry leader in developing messaging technology

Robust state-of-the-art post trade management system

Proven, reliable 2 way API to support real time risk management

Support enhanced order routing and trading floor technologies

NYCC

CME

Clearing Technology