

## FAQs for Cleared OTC London Gold Forwards

*Updated: August 20, 2009*

### 1. What are Cleared OTC London Gold Forwards?

Cleared OTC London Gold Forwards are OTC spot and forward London Gold transactions that are cleared by CME Clearing. This service will facilitate the clearing, settlement, and delivery of unallocated loco (“Gold London Delivery”) gold transactions while also offering:

- Credit risk mitigation through a centralized counterparty
- Post trade ‘clearing only’ service

In addition:

- Contracts remain as OTC forwards in clearing
- Available through CME ClearPort
- Trades are held open on a gross basis at original trade price
- Initial and variation margins are applied to positions and daily mark-to-market process

### 2. What type of OTC gold trades can be submitted for CME Clearing?

CME Clearing will accept matched transactions for clearing that fulfill the contract specifications and good delivery dates as defined under its rules and regulations. CME Clearing adheres to the gold specifications as defined by the LBMA for “London Good Delivery” at unallocated accounts at LMPCL banks. Exact specifications can be found at the [LBMA website](#).

### 3. When will this clearing service for OTC London Gold Forwards be available?

- Clearing services for house business will commence on September 20 for trade date September 21.
- Clearing services for customer business will commence within 90 days of initial launch date.

### 4. What is CME ClearPort?

CME ClearPort is a comprehensive set of flexible clearing services for the OTC market. Launched in 2002 to provide centralized clearing services and mitigate risk in the energy marketplace, today CME ClearPort clears transactions across multiple asset classes. With OTC clearing through CME ClearPort, you can continue to negotiate your own prices privately and conduct business off exchange – but you gain increased security, efficiency and confidence.

- Clears more than 500,000 contracts daily
- Brings together more than 10,000 registered users – commercial, banking, hedge funds, trading entities – IDBs, FCMs and clearing firms
- Features more than 700 listed contracts available for clearing with more to come

### 5. How do I register and how do I begin to input my Cleared OTC London Gold Forward trades?

To register for clearing OTC London Gold Forwards through CME ClearPort, you must establish an account with a COMEX clearing member and complete the [Exchange User License Agreement \(EULA\)](#) available at [www.cmegroup.com/clearport](http://www.cmegroup.com/clearport). Once you have received your username and password, contact the clearing risk or staff person at your clearing member firm and request that your clearing account be added to RAV (Risk Allocation Value) Manager. You will then give permission for any OTC broker who may be entering trades for clearing on your behalf.

**6. How are OTC trades entered for clearing into CME ClearPort?**

CME ClearPort trades may be entered in three ways:

- Through a broker using the CME ClearPort Web-based User Interface(GUI)
- Through a trader who calls the CME ClearPort facilitation desk
- Through a third-party matching/confirmation platform connected to the CME ClearPort API

**7. Who is eligible to clear OTC London Gold Forward trades on CME ClearPort?**

Access to the clearing service for Cleared OTC London Gold Forwards will be restricted to those firms that have established and funded clearing accounts at CME Clearing. In addition, only those customers that meet the definition of “Eligible Contract Participants” (ECPs) as defined in Section 1a (12) of the [Commodity Exchange Act](#) will be permitted to clear their trades. ECPs include various regulated entities, companies, floor brokers, natural persons and governmental entities, when acting for their own account. These include, among others, financial institutions, insurance companies, broker-dealers, FCMs and corporations with over \$10 million in assets.

ECPs generally include foreign equivalents of regulated entities in the above categories, if they are subject to comparable regulation in their home jurisdictions. The CFTC also has authority to designate other parties as eligible contract participants based on their financial or other qualifications.

**8. How will daily settlements be processed?**

Every business day that CME Group is open, CME Clearing provides a settlement price per every open position and marks-to-market each open trade from its original price to the daily settlement price.

**9. What will the margins be on Cleared OTC London Gold Forwards?**

Initial and variation margins are applied to positions and any daily P&L is held unrealized in accounts with any deficit being collected daily and any surplus remaining in the account. These may offset margins called on other risk positions held in CME Clearing. These +/- differences are discounted to present value and the resulting net discounted mark-to-market amount is collateralized.

**10. How is this service regulated?**

CME Clearing is a designated clearing organization regulated by the CFTC within the U.S. and has recognized overseas clearing house status from UK Financial Services Authority. Cleared OTC London Gold Forwards are not regulated in the same way as futures contracts within either of



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these jurisdictions; however, the CFTC will require CME Clearing member firms to maintain house and customer positions by account holder at CME Clearing.

As part of the risk management process, CME Clearing will also implement "position accountability," which may require clearing firms to provide information about the nature of their positions to the clearing house, upon request, if the positions exceed certain levels.

**11. Will there be any delivery position limits?**

No, because these are cleared OTC forwards and NOT futures, there is no requirement at this time to impose delivery or reportable limits.

**12. Can Cleared OTC London Gold Forward positions be used to offset any credits/debits on open gold futures positions on COMEX?**

Margin offsets are provided for at the "House Account" position level between Cleared OTC London Gold Forwards and other CME contracts, in particular COMEX gold futures. Limited margin offsets are in consideration for Cleared OTC London Gold Forwards held in 30.7 customer seg. accounts with positions in 4.d seg. futures.

For more information on regulatory treatment of Cleared OTC transactions, [click here](#).

**13. What Exchange rules will govern this service?**

All disputes are governed by the COMEX and CME rules and regulations. Once the trade is substituted into clearing, any prior legal agreements will fall away and both parties will come under the rules and regulations of the COMEX and CME.

[COMEX Rulebook](#)

[CME Rulebook](#)

**14. What happens when a position comes to 'prompt'?**

When positions come to delivery, the open long and short positions are netted off to a single gold and dollar credit/debit by account holder. CME Clearing will remain in the delivery chain all the way through settlement, for gold and dollars. All settlements are between the CME and the clearing firms/customers.

**15. What market data will be made available?**

End-of-day settlement prices are published for contracts with open positions via the CME SPAN files. In addition, aggregated trade volume, open interest and a discrete set of forward prices will be published daily on the website and in the Daily Bulletin.

**16. What will the cost be for this clearing service?**

Clearing fees have not yet been established.

**17. What will be the margin requirements for these contracts?**

Margin levels have not been determined and will be announced separately prior to the launch.

**18. What are the specifications for trades that can be submitted to clearing?**

The contract size is 100 fine troy ounces, and cleared trades of 100 ounce increments may be cleared. Prices are quoted in minimum increments of \$0.001 per ounce.

**19. What is the product code?**

GB

**20. When will this service be available?**

The service will be launched at 6:00 PM ET, Sunday August 23, 2009, for the trade date of August 24.

**21. What will be the first delivery date for Cleared OTC London Gold Forwards?**

The first available delivery date will be Wednesday, August 26, 2009.

**22. How are the contracts guaranteed?**

CME Clearing provides two forms of guarantee: a counterparty guarantee and a delivery guarantee.

When OTC forward trades are substituted in the clearing system, CME Clearing becomes the counterparty to every buyer and seller. Once these trades are accepted for clearing, the counterparties look to CME Clearing for financial performance during the life of the transaction.

The second guarantee occurs at settlement. With Cleared OTC London Gold Forwards, the clearing house remains in the delivery chain and provides each party the full comfort that the clearing house will effectively make delivery of dollars and gold.

**23. How will delivery be made?**

For delivery, all participants will establish an unallocated gold bullion account at a London Precious Metal Clearing Ltd. bank. Standing settlement instructions will need to be provided to CME Clearing for each clearing position account. CME Clearing will become counterparty in the delivery process by opening accounts at LPMCL banks to facilitate this process. CME Clearing will not become a clearing bank itself or manage vault facilities which hold precious metals in storage.

CME Clearing will remain in the delivery chain, for both gold and U.S.dollars. CME Clearing will create final gold and U.S. dollar payment messages on the day before the delivery day (preliminary instructions are sent out two days prior to delivery).

**Note:** Due to netting, it is possible that either the gold amount or the dollar amount may be zero, or that the gold and dollar amounts may both be in the same direction.

**24. Will CME Clearing make delivery of gold, even if dollars from buyer have not been received by seller?**

CME Clearing guarantees the financial performance of all cleared contracts. Whilst the timely supply of any commodity cannot be guaranteed, in the event that one of the parties defaults, CME Clearing will endeavor to fulfill its delivery obligations with the other party. Gold and dollar payments are not paid directly between counterparties, but via CME Clearing, which substantially reduces the default risk.

**25. Where can I find more information and service specifications?**

For further information, please contact a Metals team member below or visit the CME Group website at [www.cmegroup.com/lgf](http://www.cmegroup.com/lgf).

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