

Special Executive Report

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New Settlement Procedures

NYMEX WTI Crude Oil, Natural Gas, Heating Oil, and RBOB Futures to be Settled Based Exclusively on CME Globex Activity for the Front Six Contract Months

In conjunction with the adoption of harmonized Rule 813 (“Settlement Price”) by all CME Group exchanges, new settlement procedures will be implemented in NYMEX WTI Crude Oil, Natural Gas, Heating Oil, and RBOB futures contracts. **Effective June 1, 2009**, the first six contract months in these products will be settled by Exchange staff based solely upon CME Globex activity during the closing period, from 2:28:00 to 2:30:00 p.m. Eastern Time.

Staff will settle the front month contract at the volume weighted average price (“VWAP”) of the outright trades executed on CME Globex during the close, rounded to the nearest tradable tick. The second contract month will be settled to the price implied from the VWAP of the front month/second month spreads that are traded on CME Globex during the close, using the front month settlement as the anchor price.

The third through sixth contract months will be settled in chronological order based on prices implied from the VWAPs of the one-month (e.g. July/August) and two-month (e.g. June/August) spreads that are traded on CME Globex during the close provided that certain volume thresholds are met. Additionally, a weighting factor will be employed such that an 85% weighting factor is given to the price implied from the one-month spread and a 15% weighting factor is given to the price implied from the two-month spread. The formula is presented below:

$$\frac{\left(\frac{((\text{Implied Price}_1 * \text{Volume}_1) + (\text{Implied Price}_2 * \text{Volume}_2))}{(\text{Volume}_1 + \text{Volume}_2)} \right) + \left(\frac{(\text{Implied Price}_1 * W_1) + (\text{Implied Price}_2 * W_2)}{(W_1 + W_2)} \right)}{2}$$

The minimum volume thresholds for Crude Oil will be 200 contracts for spreads used to settle the second month, 100 contracts for spreads used to settle the third and fourth months, and at least one contract in spreads used to settle the fifth and sixth months. The corresponding thresholds for Natural Gas will be 100, 50, and 1, and for Heating Oil and RBOB will be 50, 25, and 1.

In the event that one of the spreads does not trade during the two-minute window, but volume in the other spread meets the volume threshold, then the settlement price will be the price implied by the spread that traded. If the combined volume of the component spreads does not meet the volume threshold, the midpoint of the best bids/offers in the relevant one- and two-month spreads at 2:30:00 p.m. will be used to imply prices for the contract, and the settlement price for that contract will be the weighted average of the implied prices, with the one-month spread implied price receiving an 85% weighting, and the two-month spread implied price receiving a 15% weighting. The formula is presented below:

$$\left(\frac{(\text{Implied Price}_1 * W_1) + (\text{Implied Price}_2 * W_2)}{(W_1 + W_2)} \right)$$

An example of the settlement methodology is presented on the following page.

Crude Oil Example: Assume July 09 is the spot month

Month	Settlement	Basis for Settlement
N9	40.00	Volume = 4000, VWAP = 40.00 N is front month – use outright VWAP
Q9	41.00	N/Q volume = 2700; VWAP = -1.00 Spread volume > 200 – imply Q settlement from VWAP of spread: 40.00+1.00 = 41.00
U9	41.75	N/U volume = 375; VWAP = -1.76 Q/U volume = 680; VWAP = -.75 -U spread volume is > 100 – imply U from 85%-15% weighted VWAP of spreads: -Imply U settlement from N = 40.00 + 1.76 = 41.76 -Imply U settlement from Q = 41.00 + .75 = 41.75 $\frac{\left(\left(\frac{(41.76 * 375) + (41.75 * 680)}{(375 + 680)}\right) + \left(\frac{(41.76 * .15) + (41.75 * .85)}{(.15 + .85)}\right)\right)}{2} = 41.75$
V9	42.33	Q/V volume = 30, VWAP = -1.30; 2:30PM Bid/Ask = -1.33/-1.28 -midpoint = -1.305 U/V volume = 55, VWAP = -.58; 2:30PM Bid/Ask = -.59/-.55 -midpoint = -.575 -V Spread volume is < 100 – use midpoints of spreads to imply V Imply V settlement from Q/V midpoint = 41.00 + 1.305 = 42.31 Imply V settlement from U/V midpoint = 41.75 + .575 = 42.33 $\left(\frac{(42.31 * .15) + (42.33 * .85)}{(.15 + .85)}\right) = 42.33$
X9	42.52	U/X volume = 25; VWAP = -.75 V/X volume = 50; VWAP = -.20 -X spread volume > 0; use VWAP of spreads -Imply X settlement from U = 41.75 + .75 = 42.50 -Imply X settlement from V = 42.33 + .20 = 42.53 $\frac{\left(\left(\frac{(42.50 * 25) + (42.53 * 50)}{(25 + 50)}\right) + \left(\frac{(42.50 * .15) + (42.53 * .85)}{(.15 + .85)}\right)\right)}{2} = 42.52$
Z9	42.54	V/Z volume = 8; VWAP = -.18 X/Z volume = 2; VWAP = -.06 -Z spread volume > 0; use VWAP of spreads -Imply Z settlement from V = 42.33 + .18 = 42.51 -Imply Z settlement from X = 42.52 + .06 = 42.58 $\frac{\left(\left(\frac{(42.51 * 8) + (42.58 * 2)}{(8 + 2)}\right) + \left(\frac{(42.51 * .15) + (42.58 * .85)}{(.15 + .85)}\right)\right)}{2} = 42.54$

Contract months beyond the sixth listed contract month will be settled by staff in conjunction with market participants, based upon relevant spread relationships. The greatest weight will be given to spreads executed in large volumes late in the trading day, either on the trading floor or on CME Globex. In the absence of trading activity, spread bids/offers actively represented either on the trading floor or on CME Globex late in the trading day will determine the settlements. Wherever possible, no settlement price will be established that lies outside of an unfilled bid or offer for at least 200 spreads for Crude, 100 spreads for Natural Gas, and 50 spreads for Heating Oil and RBOB which has been available for execution during the final fifteen (15) minutes of trading.

Settlement on Last two (2) Trading Days: On the day before the spot month contract expires, both the front and second months will settle based on the VWAP of the outright CME Globex trades in the respective contracts executed between 2:28:00 and 2:30:00 p.m. On these days, the next five months will settle based on the procedures outlined above.

On the day of expiration, the front month will settle based on the VWAP of the outright CME Globex trades executed between 2:00:00 and 2:30:00 p.m., the second month will settle based on the VWAP of the outright CME Globex trades executed between 2:28:00 and 2:30:00 p.m., and the next five months will settle based on the procedures outlined above.

In the absence of outright or spread trades during this period, the settlement price will be the best bid or best offer in the expiring contract at 2:30:00 p.m., whichever is closer to the last trade price. If there is not a bid/offer pair in the expiring contract at that time, the settlement price will be the best bid or offer implied by the bid/offer in the spread at 2:30:00 p.m., whichever is closer to the last outright trade price in the expiring contract.

Only bids and offers that remain active through expiration at 2:30:00 p.m. will be considered in these calculations. In the event there is insufficient activity to make the aforementioned calculations, staff may rely on earlier data or other available market information to determine an appropriate settlement price.

Notwithstanding the foregoing, in the event the aforementioned calculations described in this advisory cannot be made or if staff, in its sole discretion, determines that anomalous activity yields results that are not representative of the fair value of the contract, staff may determine an alternative settlement price.

Questions regarding this advisory may be directed to the following individuals:

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