To: Clearing Members, Vendors  
    Brokers  
    Customers  

From: CME Clearing Europe Limited (the Clearing House)  

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CME Clearing Europe – Launch of Gas Forwards  

Clearing Processing for Delivered Gas Forwards  

In February 2013, CME Clearing Europe intends to begin clearing transactions in deliverable gas forwards – subject to FSA approval. This advisory describes these contracts and how clearing and bookkeeping processing for them will work.  

At launch, contracts will be available for each of two delivery points – the UK National Balancing Point (NBP) and the Netherlands Title Transfer Facility (TTF). For each balancing point, there will be monthly and daily contracts, with the monthly contract being for gas delivery for each calendar day of the month, and the daily contract being for gas delivery for a specific calendar day.  

For the UK NBP forwards:  

- The product codes will be NBME for the monthly contracts and NBDE for the daily contracts.  
- These are traded in units of 1,000 UK therms per calendar day, so for example a trade quantity of 5 would mean 5,000 UK therms per calendar day.  
- The contracts are denominated in GBP, and prices are quoted in pence per therm, to a precision of 0.005 pence per therm. For example, a trade price of 60.055 means 60.055 pence per therm. Therefore the contract multiplier (“contract value factor”) for each contract is 10 times the number of calendar days for gas delivery. So for example a monthly contract for a calendar month with 31 days, will have a contract value factor of 310, and a daily contract, always for a single gas delivery day, will have a contract value factor of 10.  

For the Netherlands TTF forwards:  

- The product codes will be TTME for the monthly contracts and TTDE for the daily contracts.  
- They’re traded in units of megawatt-hours per hour.  
- Deliveries are in kilowatt-hours (1 megawatt hour is equal to 1,000 kilowatt hours).
They’re denominated in EUR, and prices are quoted in units of EUR per megawatt-hour, to a precision of 0.01 EUR per megawatt-hour. Since there are 24 hours per day, therefore the contract value factor is 24 times the number of gas delivery days. (Due to the pricing in megawatt-hours and the switchover between daylight savings time and regular time, there is one gas delivery day per year where the multiplier is 23 and another gas delivery day where the multiplier is 25.)

Both of these are physically deliverable forwards with a cash mark-to-market. In technical terms, the settlement method is DELIV (physically deliverable) and the valuation method is FWDC (a forward with cash mark-to-market.)

While both monthly and daily contracts will be available for clearing, only daily contracts will go through the gas delivery process. For monthly contracts for gas to be delivered for a specific calendar month, on the second business day prior to the start of the delivery month, positions in those monthly contracts will be offset, and will be replaced with positions in an exactly analogous strip of daily contracts, all at the original trade price.

Clearing and bookkeeping processing for these contracts will work in a manner exactly identical to that for any deliverable forward contract with cash mark-to-market:

- At the end of the day for each clearing business day, the discounted mark to market amount is calculated for each forward trade as the product of:
  
  The current settlement price less the original trade price
  
  The trade quantity (positive for a buy, negative for a sell)
  
  The contract value factor for the contract
  
  The discount factor applicable to that contract on that day

- The variation margin for that trade is then calculated as the discounted mark-to-market for the current business day, less the discounted mark-to-market amount for the previous business day.

- The variation margin amounts are netted across all open trades to obtain a net amount to be banked, in cash, on the next banking business day for the currency of denomination.

- Price alignment interest is also calculated using standard methods.

**Contract maturity for the monthly contracts**

The clearing settlement date for the monthly contracts will be the second banking business date prior to the first calendar day of the delivery month. At end-of-day on this date, CME Clearing Europe will automatically generate transactions to precisely offset open trades in the monthly contract, and to replace them with strips of transactions in the corresponding daily contracts, at the original trade price. Trade confirmation messages will be generated and transmitted to clearing firms so they may be loaded to books.
For the monthly contracts on this date, the position quantities will net to zero, and hence the discounted mark-to-market amount will be zero. Hence the variation margin on that date will in effect un-do the mark-to-market amount from the previous business day.

**Contract maturity for the daily contracts**

One of the key attractions of these contracts, will be that the gas will be paid for, and margin released, on the morning of the second banking business date after the gas is delivered.

This will be accomplished in clearing by setting the clearing settlement date for the daily contracts to be the first banking business date following the gas delivery date. Using standard clearing processing for forwards:

- At end-of-day on the first banking business day following the gas delivery day, the mark-to-market amount will be set to zero, and the initial margin requirement will similarly be zero.

- Also at end-of-day on that first subsequent day, the invoice amount for the gas will be realised.

This would cause the effects described above on the morning of the second banking business day: (a) banking cash equal to the net of un-doing the variation margin together with the invoice amount; and (b) allowing the release of any assets posted to meet initial margin.

**Initial margin calculations**

For the monthly contracts at all times, and for the daily contracts up to the second banking business day prior to the gas delivery day, initial margin requirements will be calculated normally using SPAN, and there will be no limitation on risk offsets that may be formed.

For the daily contracts beginning at end-of-day on the second banking business day prior to the gas delivery date:

- The initial margin requirement for net long positions will be equal to the full invoice amount.

- The initial margin requirement for net short positions will calculated in SPAN as the number of contracts times a rate.

- In neither case will any risk offsets be recognised against positions that are not yet in their delivery period.

**Specifications for forwards processing**

Full specifications for forwards processing are available at:

Testing opportunities

These contracts will be available shortly in the CME Clearing Europe “New Release” testing environment.

For further information please contact Clearing Support on +44 (0)20 3379 3131 or email: ClearingSupport_London@cme-clearing-europe.com.