



## Special Executive Report

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S-5407

September 20, 2010

### **CHANGE IN TERMINATION OF TRADING AND FINAL EXPIRATION SCHEDULES FOR "NAMED STORM" HURRICANE CONTRACTS**

Contracts based on the CME Hurricane Index (CHI) currently call for termination of trading and final settlement two business days following the last forecast/advisory issued by the National Hurricane Center (NHC) for the named storm, provided that both the NHC and the Hydrometeorological Prediction Center have stopped issuing advisories for that named storm.

Recent experience with Tropical Storm Colin revealed the need to increase this time lag to better protect against a premature termination and final settlement. Therefore the time between the final NHC report, and termination of trading and final settlement, will increase from 2 business days to 5 business days. This change will be effective with the listing of contracts on Hurricane Matthew.

Rule amendments are presented below, with additions underlined and deletions bracketed and overstruck.

#### **Chapter 423 CME Hurricane Index Futures**

##### **42302. FUTURES CALL**

###### **42302.G. Termination of Trading**

Futures trading shall terminate at 9:00 A.M. on the first Exchange business day that is at least ~~two~~ five calendar days following the last forecast/advisory issued by the National Hurricane Center (NHC) for the named storm, provided that both the NHC and the Hydrometeorological Prediction Center have stopped issuing advisories for that named storm, but in no event shall trading terminate prior to the first Exchange business day that is at least ~~two~~ five calendar days following January 1, or later than the first business day that is at least ~~two~~ five calendar days following December 31. If a particular named storm is unused (i.e. that storm has not formed), trading shall terminate at 9:00 A.M. on the first Exchange business day that is at least ~~two~~ five calendar days following December 31.

##### **42303. SETTLEMENT PROCEDURES**

###### **42303.A. Final Settlement Price**

All futures contracts remaining open at the termination of trading shall be settled using the respective CHI final value reported by EQECAT for that named storm, using the methodology in effect on that date and the NHC data from the Public Advisories issued through the life of the named storm.

For example, on August 30, 2005, the last NHC Advisory on Hurricane Katrina was issued; therefore on September ~~2~~ 6, 2005, the Eastern US contract for Hurricane Katrina would have been settled at 20.4 CHI index points, using data from the NHC's Hurricane Katrina Advisories Number 9 (Florida landfall, CHI = 1.4) and Number 26A (Louisiana landfall, CHI = 19.0).

## Chapter 423B CME Hurricane Index Binary Contract

### 423B02. CONTRACT CALL

#### 423B02.I. Termination of Trading

Trading shall terminate at 9:00 A.M. on the first Exchange business day that is at least ~~two~~ five calendar days following the last forecast/advisory issued by the National Hurricane Center (NHC) for the named storm, provided that both the NHC and the Hydrometeorological Prediction Center have stopped issuing advisories for that named storm, but in no event shall trading terminate prior to the first Exchange business day that is at least ~~two~~ five calendar days following January 1, or later than the first business day that is at least ~~two~~ five calendar days following December 31. If a particular named storm is unused (i.e. that storm has not formed), trading shall terminate at 9:00 A.M. on the first Exchange business day that is at least ~~two~~ five calendar days following December 31.

### 423B03. EXERCISE

#### 423B03.B. Assignment

Exercise notices accepted by the Clearing House shall be assigned through a process of random selection to clearing members with open short positions in the same series. A clearing member to which an exercise notice is assigned shall be notified thereof as soon as practicable after such notice is assigned by the Clearing House, but not later than 45 minutes before the opening of Regular Trading Hours on the following business day.

The buyer of a binary contract shall receive \$10,000 if the respective CHI is equal to or greater than the exercise price, and shall receive zero dollars (\$0) otherwise. The seller of a binary contract shall be obligated to pay \$10,000 if the respective CHI is equal to or greater than the exercise price, and shall be obligated to pay zero dollars (\$0) otherwise.

For example, on September ~~2~~ 6, 2005, the Hurricane Katrina Binary contract would have been settled at 20.4 CHI index points. Therefore, buyers of such binary contracts with exercise prices equal to or less than 20 would have received \$10,000 for each such binary contract from the sellers of each such binary contract, and buyers of such binary contracts with exercise prices of 21 or greater would have received nothing.

## Chapter 430 CME Hurricane Index Cat-In-A-Box Futures

### 43002. FUTURES CALL

#### 43002.G. Termination of Trading

Futures trading shall terminate at 9:00 A.M. on the first Exchange business day that is at least ~~two~~ five calendar days following the dissipation or exit from the designated area of a named storm, provided that both the NHC and the Hydrometeorological Prediction Center have stopped issuing advisories for that named storm, but in no event shall trading terminate prior to the first Exchange business day that is at least ~~two~~ five calendar days following January 1, or later than the first business day that is at least ~~two~~ five calendar days following December 31. If a particular named storm is unused (i.e. that storm has not formed), trading shall terminate at 9:00 A.M. on the first Exchange business day that is at least ~~two~~ five calendar days following December 31.

### 43003. SETTLEMENT PROCEDURES

#### 43003.A. Final Settlement Price

All futures contracts remaining open at the termination of trading shall be settled using the respective CHI Cat-In-A-Box final value reported by EQECAT for that named storm, using the methodology in effect on that date and the National Hurricane Center (NHC) data from the Public Advisory that results in the maximum calculated CHI Cat-In-A-Box value while the hurricane is within the designated area.

For example, on August 28, 2005, Hurricane Katrina had a maximum CHI value in the Galveston-Mobile area of 22.4 using data from NHC's Hurricane Katrina Advisory Number 25; therefore, on September 6, 2005 the Galveston-Mobile Cat-In-A-Box contract for Hurricane Katrina would have been settled at 22.4 CHI index points with the final settlement value reported by EQECAT after the final Public Advisory for Katrina had been issued by the NHC.

## **Chapter 430B**

### **CME Hurricane Index Cat-In-A-Box Binary Contract**

#### **430B02. CONTRACT CALL**

##### **430B02.I. Termination of Trading**

Trading shall terminate at 9:00 A.M. on the first Exchange business day that is at least [~~two~~] five calendar days following the dissipation or exit from the designated area of a named storm, provided that both the NHC and the Hydrometeorological Prediction Center have stopped issuing advisories for that named storm, but in no event shall trading terminate prior to the first Exchange business day that is at least [~~two~~] five calendar days following January 1, or later than the first business day that is at least [~~two~~] five calendar days following December 31. If a particular named storm is unused (i.e. that storm has not formed), trading shall terminate at 9:00 A.M. on the first Exchange business day that is at least [~~two~~] five calendar days following December 31.

#### **430B03. EXERCISE**

##### **430B03.B. Assignment**

Exercise notices accepted by the Clearing House shall be assigned through a process of random selection to clearing members with open short positions in the same series. A clearing member to which an exercise notice is assigned shall be notified thereof as soon as practicable after such notice is assigned by the Clearing House, but not later than 45 minutes before the opening of Regular Trading Hours on the following business day.

The buyer of a binary contract shall receive \$10,000 if the respective CHI is equal to or greater than the exercise price, and shall receive zero dollars (\$0) otherwise. The seller of a binary contract shall be obligated to pay \$10,000 if the respective CHI is equal to or greater than the exercise price, and shall be obligated to pay zero dollars (\$0) otherwise. For example, on September [~~2~~] 6, 2005, the Hurricane Katrina Galveston-Mobile Cat-In-A-Box Binary contract would have been settled at 22.4 CHI index points. Therefore, buyers of such binary contracts with exercise prices equal to or less than 22 would have received \$10,000 for each such binary contract from the sellers of each such binary contract, and buyers of such binary contracts with exercise prices of 23 or greater would have received nothing.

If you have any questions regarding this matter, please contact Paul Peterson, Director, Commodity Research & Product Development at (312) 930-4587.