
CBOT BLACK SEA WHEAT FUTURES Delivery Procedures

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Introduction

Deliveries of underlying commodities are very rare in well-functioning futures contracts. For example, for the world's most active wheat futures contract, CBOT Wheat futures, only 4/100s of one percent (0.0004) of contracts traded in 2011 ended up in delivery. Instead, these contracts are used predominately for price discovery and price risk management and are either offset or rolled forward prior to the delivery period. However, even though rarely used, the physical delivery mechanism must work equally well for both buyers and sellers to ensure that cash prices and futures prices converge when a futures contract expires. Convergence of cash and futures prices assures the two markets are closely linked and allows the futures contract to act as an effective tool for managing price risk. This paper is intended to describe how the delivery process will work for the new CBOT Black Sea Wheat futures contract.

What follows is a general description of procedures for the delivery, matching, and load-out of wheat under the specifications of the CBOT Black Sea Wheat futures contract. In all cases, the CBOT Black Sea Wheat (BSW) futures Rules and regulations take precedence over this document. The load-out procedures for the BSW contract are intended, to the extent practicable, to mirror the custom and practice of the underlying physical market in the Black Sea region.

Differences with CBOT Wheat futures

The delivery instrument on the CBOT Wheat futures contract is a financial instrument called a Shipping Certificate. The buyer of a Shipping Certificate obtains the right, but not the obligation, to load-out physical wheat at the facility that issued the Certificate. Thus, taking delivery on CBOT Wheat futures does not require the buyer to load-out physical wheat. Instead, the buyer may re-deliver the Shipping Certificate on the current or a subsequent Wheat futures contract; may carry the Shipping Certificate as an investment and pay the facility that issued the Certificate a storage fee; or sell the Shipping Certificate to another market participant in the cash market. Because a Shipping Certificate does not require load-out of physical wheat, CBOT Wheat futures continue to trade for approximately two weeks after deliveries begin.

CBOT BSW futures, on the other hand, require physical delivery after a futures contract expires. Thus, if a trader maintains short (sell) positions in an expiring BSW futures contract, that trader will be required to deliver physical wheat meeting the contract's quality attributes during a specified period in the second half of the delivery month, and if a trader maintains long (buy) positions in an expiring BSW futures contract, that trader will be required to furnish a vessel to receive physical wheat during a specified period in the second half of the delivery month. Unlike the CBOT Wheat futures contract, the BSW futures contract will not continue to trade during the delivery month; instead, trading in an expiring contract will terminate on the business day prior to the delivery month (e.g., trading in a July BSW futures contract will terminate on the last business day in June). On the first day of the delivery month, buyers and sellers will be matched by the CME Clearing House, and physical delivery or load-out between the matched buyers and sellers will occur during the second half of the delivery month.

Requirements for Delivery

A trader must meet the following requirements to hold short (sell) positions beyond the termination of trading in an expiring BSW futures contract:

1. A seller must have a minimum position of 75 short contracts. Each contract represents 136 metric tons, so a seller must be prepared to deliver at least 10,200 metric tons of wheat before holding positions at contract expiration. Please note that a seller who plans to liquidate his short positions by buying back futures contracts before contract expiration may sell any quantity of contracts. The 75 contract minimum only applies to sellers who plan to deliver physical wheat in satisfaction of their short futures position.
2. A seller must secure a three-day loading window during the second half of the delivery month at one of the designated port locations before holding short (sell) positions in the BSW futures contract at expiration. For example, a seller that would like to deliver wheat on a July BSW futures contract through the Port of Odessa would first need to secure a three-consecutive-day loading window through that port between July 15 and July 31. The seller must be able to show that a three-day loading window has been secured before being allowed to hold short positions in the BSW futures at contract expiration.

Approved delivery ports include:

Ukraine

Port of Illichivsk
Port of Odessa
Port of Sevastopol
Port of Yuzhny
Port of Nikolaev

Russia

Port of Novorossiysk
Port of Tuapse
Port of Taman

Romania

Port of Constanta

3. Sellers shall guarantee the ability to load handy or larger vessels and allow sailing for vessels with maximum draft of 10.3 meters.
4. Sellers will be required to deposit margin with their Clearing Firm equal to the full value of the wheat that they will deliver.

A trader must meet the following requirements before holding long (buy) positions beyond the termination of trading in an expiring BSW futures contract:

1. A buyer must be capable of securing and placing a vessel at one of the delivery ports above during the second half of the delivery month. Since the seller chooses the port and the 3-day loading window, the Exchange makes no guarantee what seller(s) or Port location(s) a buyer is ultimately matched with, so a buyer must be capable of placing a

vessel at any of the approved delivery ports during the second half of the delivery month before holding a long (buy) position through contract expiration.

2. Buyers will be required to deposit margin with their Clearing Firm equal to the full value of the wheat that they will take delivery of.

Matching of Buyers and Sellers

Following contract expiration, Clearing Firms representing short (sell) position holders will enter their customers' delivery intentions into the Exchange's Clearing Delivery System by 12:00 Noon Chicago time (approximately 8:00 p.m. Eastern European Time) on the first business day of the delivery month. Delivery intentions will include delivery quantity (number of contracts), port designation, three-day loading window, and the name of the customer making delivery.

The loading window, as mentioned above, must be any three-consecutive-day period between the 15th calendar day and the last calendar day of the contract month.

After 12:00 Noon Chicago time, the Exchange will publish these short delivery intentions so that Clearing Firms representing long (buy) position holders can see the quantities and also the ports where sellers intend to deliver. By 2:00 PM Chicago time (approximately 10:00 p.m. Eastern European Time) also on the first business day of the delivery month, Clearing Firms representing long position holders must enter their customer's intentions to take delivery consisting of quantity (number of contracts) and the customer taking delivery. In addition, Long Clearing Firms may also request assignment to a specific port and load-out window based on the intents to deliver report that was issued two hours earlier (12:00 Noon Chicago Time). Thus, customers with long positions should communicate with their Clearing Firm to see what deliveries are available and to request specific deliveries.

The Clearing House will match the delivery intentions between Long and Short Clearing Firms and notify all Long Clearing Firms on the day of the assignment. The assignment process will occur after 2:00 PM Chicago time on the first business day of the delivery month.

Buyers and sellers will be matched as follows:

1. Deliveries will be assigned first to the Long Clearing Firm(s) that entered requests for specific ports and loading windows. If two or more firms have requested the same port designation and delivery window, the delivery will be allocated to the Long Clearing Firm with the largest requested quantity. If firms have the same requested quantity, the delivery will be allocated to the Long Clearing Firm with the oldest trade date (oldest long position). If firms have the same trade date, the delivery will be allocated to the Long Clearing Firm with the earliest entry time for their intentions to take delivery.
2. After the Clearing House assigns deliveries that have been requested, any remaining positions will be assigned when possible based on size so that firms with large quantities are assigned prior to smaller quantities.

Following matching, both Buyers' and Sellers' will be required to deposit with their Clearing Firms margin equal to the full value of the product being delivered. Such margin shall consist of cash, securities issued by the United States Treasury Department maturing within ten (10) years from the date of deposit and guaranteed as to principal and interest by the United States Government or a Stand-by Letter of Credit whose terms are defined by the Exchange.

Physical Load-out

Buyers must accept load-out targeted for the specified three-day loading period(s) of all deliveries assigned, even if the buyer is assigned more than one Port and/or 3-day loading period.

A seller or buyer may agree with the counterparty with which he has been matched to make and take delivery under terms or conditions which differ from the terms and conditions described by the BSW futures contract. Because futures delivery quantities may often be less than full vessel capacities, it may be in the interest of both buyers and sellers to enter into these alternative delivery procedures to, for example, negotiate the purchase and load-out of vessel quantities.

The following steps describe the physical load-out between matched buyers and sellers:

1. From the Exchange's perspective, delivery is between the Buyer's Clearing Firm and the Seller's Clearing Firm. However, Buyers and Sellers should also communicate and exchange documentation as per cash market custom.
2. The Buyer shall give vessel nomination to the seller with not less than 10 consecutive day's notice before the vessel's estimated arrival. Nomination shall include name, flag, draft, tonnage, dimensions, owner, registration number, estimated arrival time, demurrage rate, planned intake, and vessel draft on planned intake. After issuing the nomination, the Buyer's Clearing Firm will enter into the Exchange's Clearing Delivery System that the nomination has been issued.
3. Within 24 hours the Seller shall confirm or reject the vessel nomination and the Seller's Clearing Firm shall confirm or reject the vessel nomination within the Exchange's Clearing Delivery System with an explanation of unacceptable parameters for rejected nominations.
4. At least two calendar days prior to the three-day loading window, the Seller's Clearing Firm shall inform the Buyer's Clearing Firm what port berth will be used in the delivery through the Exchange's Clearing Delivery System.
5. A Notice of Readiness shall be tendered upon the vessel's arrival at port. Vessel should be in all respects ready to load.
6. In case the Vessel's holds are not in all respects ready to receive cargo, the Notice of Readiness shall not be valid. In case of dispute, a GAFTA approved independent surveyor shall decide the vessel's readiness to load. If the independent surveyor determines the vessel is ready to load, the original Notice of Readiness shall be valid. If rejection of a Notice of Readiness is undisputed or confirmed by the independent surveyor, a new Notice of Readiness shall be tendered by the Buyer on the business day after the vessel has passed re-inspection.
7. The Notice of Readiness date is the calendar day that a valid Notice of Readiness was tendered at the office of the Seller. Buyer and Seller should share dated copies of the approved Notice of Readiness with their respective Clearing Firms. If the Notice of Readiness date is not before the end of the three-day loading window, the Seller will nominate another three-day loading period as close as possible to the Notice of Readiness date. Any time lost and any vessel charges while waiting for her next turn for berthing will be for the Buyer. Also, if the Notice of Readiness date is not before the end of the original three-day loading period, the Buyer shall pay a daily storage charge of \$0.20 per metric ton from the calendar day following the original three-day loading window until load-out is complete.

8. Load-out may occur at any time during the three-day loading window or when free berth becomes available, whichever comes later. Seller guarantees to load the tonnage due at not less than 10,000 metric tons per day. Seller shall pay demurrage, as per the demurrage rate specified in the vessel nomination, if loading is slower than the guaranteed loading rate. Lay-time will start counting at 08:00 a.m. Local Time on the first day of the three-day loading window. Lay-time shall count for each weather running day of 24 consecutive hours with only New Year's Day (1 January) from Midnight until 18:00 excluded, even if used. Time for mooring/unmooring operations between berths shall not count.
9. Sellers shall provide export license. All export duties, taxes, levies, etc, shall be for the Seller. All import duties, taxes, levies, etc, shall be for the Buyer.

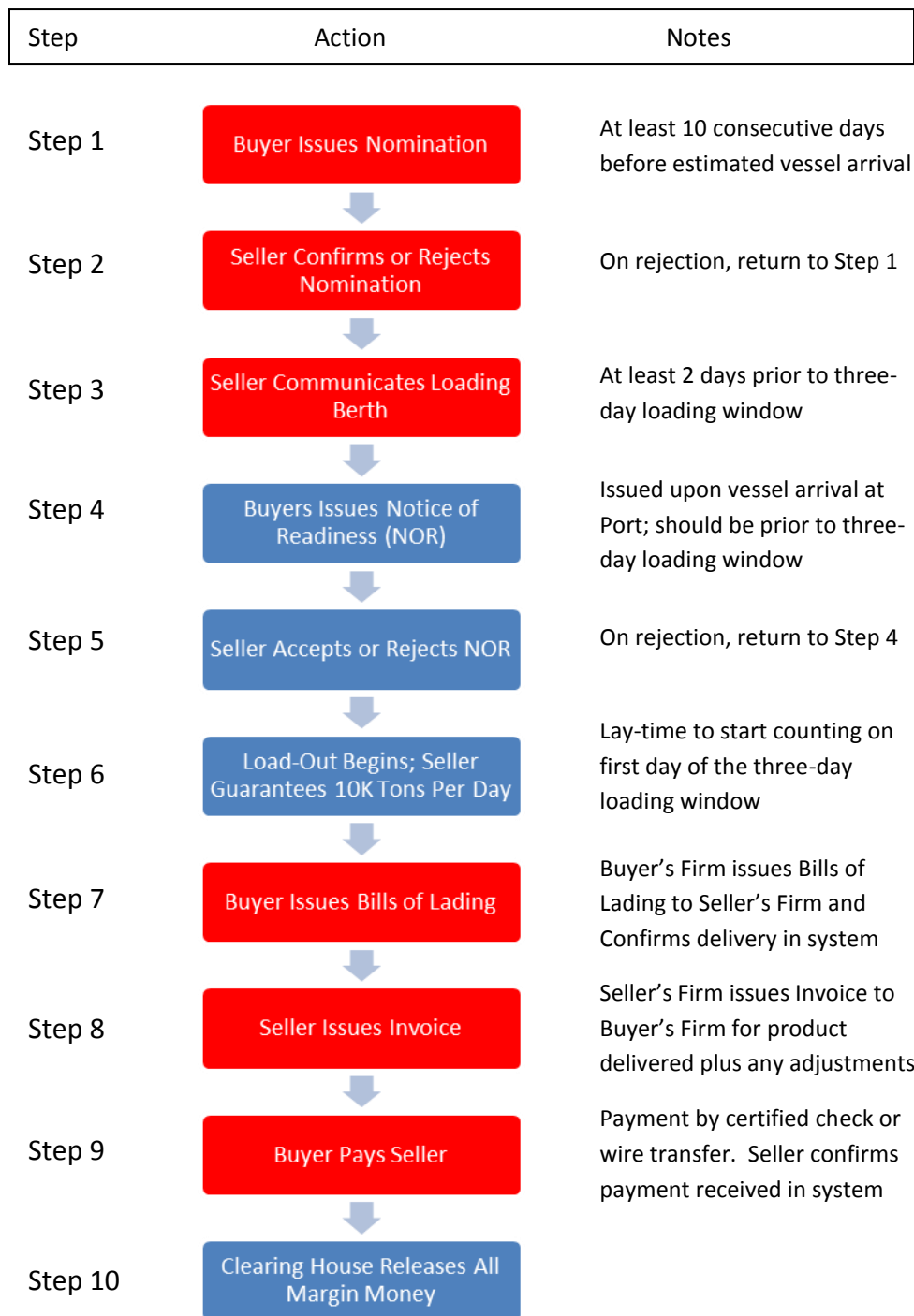
Payment

Upon completed loading, the Seller's Clearing Firm shall confirm in the Clearing Delivery System that loading is complete. The Buyer's Clearing Firm shall present the Seller's Clearing Firm with copies of one full set of Clean on Board Bills of Lading, issued "TO ORDER" and shall confirm in the Clearing Delivery System that loading is complete and that the Bills of Lading have been presented to the Seller's Clearing Firm.

The Seller's Clearing Firm will then issue an invoice to the Buyer's Clearing Firm detailing payment due based on the tonnage delivered plus any adjustments that occurred during the load-out that should be for the Buyer's account or for the Seller's account. All adjustments must be fully documented. The invoice must be issued by 12:00 noon Chicago Time on the business day after the Buyer's Delivery Confirmation date.

The Buyer's Clearing Firm shall pay the Seller's Clearing Firm by certified check at the office of the Seller's Clearing Firm or by federal funds money wire by 12:00 noon Chicago Time two business days following the Buyer's Delivery Confirmation date. Immediately upon receipt of payment, the Seller's Clearing Firm will confirm in the Clearing Delivery System that payment is complete. Upon the Seller's Clearing Firm's payment confirmation, the Clearing House will release all margin monies being held.

Black Sea Wheat Delivery Overview. **Red** boxes indicate actions required by the buyer's and/or seller's Clearing Firm in the Exchange's Delivery System.



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