

METALS PRODUCTS

Cleared OTC London Gold Forwards

Position Paper

September 21, 2009



CME Group (www.cmegroup.com) is the world's largest and most diverse derivatives exchange. Building on the heritage of CME, CBOT and NYMEX, CME Group serves the risk management needs of customers around the globe. As an international marketplace, CME Group brings buyers and sellers together on the CME Globex electronic trading platform and on trading floors in Chicago and New York. By acting as the buyer to every seller and the seller to every buyer, CME Clearing substantially mitigates counterparty credit risk. CME Clearing also offers \$8 billion in financial safeguards to help mitigate systemic risk, providing the security and confidence market participants need to operate, invest and grow. CME Group offers the widest range of benchmark products available across all major asset classes, including futures and options based on interest rates, equity indexes, foreign exchange, energy, agricultural commodities, metals, and alternative investment products such as weather and real estate. CME Group is listed on NASDAQ under the symbol "CME."

Contents

• Overview of CME Group's Clearing Service	4
• Launch Timetable	5
• Contract Specifications	6
• Contractual Aspects of Clearing	7
• Clearing Processing Days and Holidays	7
• Submitting Trades through CME ClearPort	8
• Daily Settlement Process	9
• Margining Summary	10
• Acceptable Collateral	12
• Bookkeeping Processing	12
• Transfer and 'Tear-Ups' Prior to Maturity	13
• Final Delivery Procedures	14
• Delivery and Settlement Timeline	16
• Delivery Guarantee	18
• Regulatory Oversight, Reporting and Rulebook	18
• Eligibility	20
• Fees and Charges	22
• CME Group Contact Details	23

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All matters pertaining to rules and specifications herein are made subject to and are superseded by the official rules of the relevant CME Group exchanges. Current exchange rules should be consulted in all cases concerning contract specifications.

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Cleared OTC London Gold Forwards through CME ClearPort

CME Group is introducing a central clearing service for OTC transactions in loco London gold. Both spot and forward gold transactions will be cleared through CME ClearPort. This service will support not only the central clearing, but also the settlement and delivery of London unallocated gold.

This service has unique attributes, which this paper highlights. Most significantly, transactions will remain as OTC forwards and will not be converted to futures. Within CME Group documentation, these contracts will be referred to as Cleared OTC London Gold Forwards.

The clearing service for gold forwards is expected to be the first of a series of services to be launched by CME Group aimed at the OTC precious metals markets. Following the successful launch of gold forwards clearing, CME Group may consider similar services for silver, platinum and palladium forwards, as well as for options and swaps on these metals.

The key aspects covered by the CME ClearPort clearing service are as follows:

- This is a post-trade 'clearing only' service. No exchange-sponsored execution platform is provided.
- Maturities may be for any date from "tom" to ten years forward, which is eligible for delivery into unallocated "London Good Delivery" gold as defined by the London Bullion Market Association ('LBMA')¹.
- "London Good Delivery" gold is, and will be, defined by the LBMA. CME Group has incorporated existing product and "London Good Delivery" specifications into this service.
- Trade capture for clearing is through CME ClearPort using existing web-based technology which places matched trades into CME Group's Front End Clearing application ('FEC'), and into Clearing Firms' accounts.
- Contracts remain as forwards in clearing. Open trades are held on a gross basis at original trade price. Every trade establishes a new open position. There is no liquidation, except that under certain circumstances trades can be "torn up".
- Each day, every open trade is marked to market from original trade price to the daily settlement price. These mark-to-market amounts are netted down and then collateralized, meaning that rather than being banked in cash, they decrease (if a net credit) or increase (if a net debit) the initial margin requirement for Cleared OTC London Gold Forwards. Any excess credit may offset the initial margin on other positions.
- On the business day before delivery, CME Clearing will pass instructions to position holders for net transfer of credit and debit balances by account holder for gold and US

¹ See LBMA website for delivery specifications: www.lbma.org.uk

dollars. Delivery occurs at London Precious Metals Clearing Limited ('LPMCL') member firms using "London Good Delivery" standards².

- Upon completion of delivery, the collateralized requirement resulting from those trades is unwound, and if it had been a liability, any collateral posted to cover it may be withdrawn.

About CME ClearPort

CME ClearPort is a comprehensive set of flexible clearing services for OTC derivatives markets. Launched by NYMEX in 2002 to provide centralized clearing services and mitigate risk in the energy marketplace, today CME ClearPort facilitates the clearing of transactions across multiple asset classes.

Today, CME ClearPort:

- Provides clearing services for approximately 500,000 contracts daily
- Brings together more than 10,000 registered users
- Features more than 700 listed contracts available for clearing

Launch timetable

Clearing for proprietary (house) positions will be launched on 21 September 2009, with clearing for customer positions to follow within 90 days of launch. We are working with both UK bullion participants, including LPMCL members, and CME Clearing Members to ensure technical and operational readiness.

Test environments are available which participants may use to test trade entry and bookkeeping processing. For more information contact CME Group's Third Party Services team at +1 800 275 6215, +1 212 301 4720, or thirdpartyservices@cmegroup.com.

² See LPMCL website for account specifications: www.lpmcl.com

Contract Specifications for Cleared OTC London Gold Forwards

OTC transactions meeting the following characteristics may be submitted for clearing.

Product Code	GB
Service Description	Clearing of unallocated loco London gold forward transactions
Venue	CME ClearPort
Contract Size	100 fine troy ounces
Clearing Hours	CME ClearPort is available for trade submission 6:00PM Sunday to 5:15PM Friday New York time, with a 45 minute break from 5:15PM to 6:00PM New York time, Monday through Thursday
Unit Price	Valued in US dollars and cents per ounce.
Minimum Price Fluctuations	Minimum increment of \$0.001 per oz (\$0.10 per unit)
Available Delivery Dates	Delivery on any good business day in the LBMA calendar, with a maximum available maturity of 10 years from spot
Deliverable Specifications	London Good Delivery as specified by LBMA at unallocated accounts held at LPMCL member banks
Last Submission Day	Trades can be submitted to CME ClearPort for clearing up to and including one good business day prior to the Delivery date.
Final Settlement	Delivery of gold in exchange for dollars at original deal price on the delivery date. For multiple delivery positions, net delivery of gold and dollars will be performed.
Settlement Process	CME Clearing remains in the delivery chain throughout the settlement process as gold is delivered to unallocated accounts. Cash is transferred via secure payment mechanism through CME Clearing.
Margin	Contracts are re-valued daily at that forward date's contract settlement price and the P/L variation remains unrealized; losses are funded daily via any collateral type accepted by CME Clearing, while profits are held at CME Clearing to maturity date, where they may offset other initial margin requirements and thereby reduce total collateral required to be posted.
Exchange Rules	Contract specifications are in Chapter 334 of the NYMEX rulebook and clearing and settlement are subject to Chapter 8-F of the CME rulebook.

Contractual Aspects of Clearing

This is a cleared-only service that accepts “matched” OTC gold transactions that are submitted for clearing through CME ClearPort by either the buy or sell counterparty, or an approved OTC broker. Upon acceptance by CME Clearing, Cleared OTC London Gold Forwards are subject to the rules of the Clearing House (CME rules) and Clearing Members are subject to Exchange rules governing Clearing Members (COMEX rules).

Cleared OTC London Gold Forwards are OTC transactions that are submitted to CME Clearing and remain OTC transactions once cleared. In other words, they are not extinguished and replaced by positions in regulated futures contracts. CME Clearing becomes the central counterparty to each party. The contract between the original counterparties is replaced with two new legally binding contracts – one between each of the original counterparties and CME Clearing. In other words, the clearing house substitutes itself as the counterparty to each party to the original transaction.

All cleared positions are held by Clearing Members – these are either held in House or Customer accounts.

- COMEX Clearing Members are afforded full rights and privileges to clear these contracts.
- Firms which are not Clearing Members must hold positions in an account with a Clearing Member.

CME Group will publish terms for Cleared OTC London Gold Forwards which will be listed by COMEX for clearing-only.

- Contract terms are set forth in Chapter 334 of the NYMEX Rulebook.
- The contract terms have been drafted to reflect OTC market practice.
- All cleared positions are held subject to the contract terms in the NYMEX rulebook – these terms replace any others (e.g., ISDA) that may have governed the original transaction.

Clearing Processing Days and Holidays

Cleared OTC London Gold Forwards may have a delivery date of any weekday except when it falls on a U.S. or U.K. Bank Holiday, such as Christmas or August Bank Holiday, which prohibits the combined settlement of US dollars and UK gold.

Trades in Cleared OTC London Gold Forwards may clear on any weekday except Christmas and New Years Day (when these Holidays fall on weekdays). CME Clearing runs clearing cycles on all such “clearing processing days”, even when they are normal US holidays such as July 4.

Submitting trades through CME ClearPort

CME ClearPort accepts “matched” OTC gold transactions from either the buy or sell counterparty, or from an approved broker. If the submission is directly from one counterparty, then either the other party will have authorized the first party to submit trades on its behalf, or the ClearPort Facilitation Desk will first verify with the other party its willingness to accept the trade. If the submission is from a broker, it must be registered by each counterparty as authorized to submit deals on its behalf.

Prior to acceptance, trades are verified against counterparty account details, including available credit. Provided that the trade passes the credit check on both sides, it is accepted for clearing, and both sides receive a confirmation message so indicating. If the trade is not accepted, the parties similarly receive a message indicating this.

CME ClearPort allows deals to be submitted by either a web-based user interface, or via the CME ClearPort API (application programming interface.)

Registering for CME ClearPort

In order to access the CME ClearPort service, customers must complete the following steps:

- Establish an account with a COMEX Clearing Member for Cleared OTC London Gold Forwards.
- Complete the online Exchange User License Agreement (‘EULA’), whether as a broker or a trader, at www.cmegroup.com/clearport.
- Once your username and password has been received for CME ClearPort, Clearing Members can be requested to add customer clearing accounts to RAV (Risk Allocation Value) Manager, to apply permissions to accept Cleared OCT London Gold Forwards transactions, and to enable any authorized OTC brokers to enter trades for clearing.

For Companies clearing through an omnibus account relationship

The Company will notify the Omnibus firm it will clear through that it has completed the CME ClearPort EULA. The Omnibus firm will notify its Clearing Member that its customer has entered a CME ClearPort registration. The following information is required for these accounts:

- The Omnibus firm will confirm a unique customer number with the Clearing Member for the registering Company.
- The Clearing Member must issue a unique prefix which will identify the Omnibus. This prefix will precede the unique customer number supplied by the Omnibus.
- The Clearing Member will enter the Omnibus prefix followed by the customer number on the customer’s CME ClearPort Services Registration form. This will allow the Clearing Member to identify the Omnibus the trade is assigned to and also serves as a unique customer identifier.

Daily Settlement Process

CME will publish daily settlement prices on its website and in its Daily Bulletin as displayed in the below table. In addition, the exchange's SPAN files will incorporate settlement prices for all listed contract dates for Cleared OTC London Gold Forwards.

Cleared OTC London Gold Forward (GB)		
Daily Market Volume (lots):	5,920	
Aggregate Open Positions (lots):	210,156	
Cleared Date	10/26/2009	Delivery Date
Spot	990.500	10/28/2009
1 Week	990.634	11/04/2009
2 Week	990.954	11/11/2009
1 Month	991.152	11/30/2009
3 Month	993.224	01/28/2010
6 Month	996.159	04/28/2010
9 Month	999.813	07/28/2010
1 Year	1,002.045	10/28/2010
3 Year	1,038.404	10/29/2012
5 Year	1,097.696	10/28/2014
7 Year	1,177.198	10/28/2016
10 Year	1,312.849	10/28/2019

- Prices for Cleared OTC London Gold Forwards reflect time to maturity and interest rates. Forward prices are derived by starting with the spot price and by calculating the forward premium using an implied gold lease rate.
- All Cleared OTC London Gold Forwards positions will be marked-to-market daily by CME Clearing using settlement prices out to each forward settlement date.
- The spot interbank loco London gold price will be the anchor price for these forward calculations.
- CME Clearing evaluates the daily London spot price to correspond with the COMEX gold futures settlements – presently at 1:30 p.m. New York time (typically 6:30 p.m. London time). The prevailing EFP between the active gold futures contract and the London spot price will help establish the differential between these two prices.
- A U.S. dollar interest rate curve will be derived from Eurodollar futures and other market sources such as LIBOR and swaps rates, and will be used to assess the dollar portion of the forward curve.
- CME Clearing will report daily settlement prices for all active maturities via its daily SPAN files, and disseminate prices for selected maturities on its website and in its Daily Bulletin.

Margining Summary

The total margin requirement for which collateral must be posted with CME Clearing, consists of the sum of **variation margin** and **initial margin**.

Variation margin is determined by marking every open trade from original trade price to the current day's marking price (the "daily settlement price"), discounting these amounts to present value, and netting them down. A net gain becomes a credit which reduces the total requirement, and a net loss becomes a debit which increases the total requirement.

Initial margin ("performance bond") is calculated via SPAN® (Standard Portfolio Analysis of Risk®), and provides an estimate of the maximum likely amount by which the portfolio of open trades might reasonably decline in value over the next trading day.

We say that variation margin is "collateralized" for Cleared OTC London Gold Forwards, rather than "banked". The daily change in mark-to-market is **not** banked in cash, as it would be for a futures contract. Net discounted loss amounts may be met by any collateral type accepted by CME Clearing. A USD cash call is issued only if collateral on deposit is insufficient to meet the total variation and initial margin requirement.

When CME Clearing calculates the total margin requirement for house (proprietary) positions, all appropriate risk offsets will be automatically granted. For example, if there are offsetting positions between Cleared OTC London Gold Forwards and COMEX Gold futures and futures options, then the initial margin requirement will be correspondingly reduced.

For customer positions, however, because the Cleared OTC London Gold Forwards are "30.7 Secured" positions, no such risk offsets are currently allowed³. The daily SPAN file published by CME Clearing for margining of customer accounts will not contain intercommodity spread records for Cleared OTC London Gold Forwards versus COMEX Gold futures and options.

Note that Clearing Firms will post a separate pool of collateral assets to meet the 30.7 Secured performance bond requirements, and must provide separate 30.7 Secured bank accounts for banking of margin calls/releases. Collateral deposited to meet customer-segregated futures margin requirements may not be used to meet either initial margin or collateralized requirements for Cleared OTC London Gold Forwards, and vice versa. Also, if a customer has a collateralized mark-to-market amount which is a credit (a net gain), this can be used to offset performance bond requirements only for such 30.7 Secured positions. If there is any excess credit, it cannot be used to offset requirements for customer-segregated futures and options positions.

Once physical settlement is complete, at the intraday settlement cycle on the value date, the positions are removed, and their contribution to the total margin requirement is unwound.

³ The appropriateness of margin reductions in 30.7 customer accounts based on related futures positions in 4d accounts remains under discussion at the CFTC

Calculating the discounted collateralized mark to market – an example

For example, suppose on October 26, 2009, you sold 4,379 contracts for delivery on December 23, 2009, at a price of 995.67 USD per troy ounce, and at the end of the day on October 29, the daily settlement price for this contract is determined to be 965.55 USD per troy ounce. Also suppose that the discount factor on October 29 is provided as 0.98039. The collateralized mark to market amount is determined as:

$$(-4,379) * (965.55 - 995.67) * 100 * 0.98039 = 12,827,865.8693$$

Which is then rounded to 12,827,865.87 (normal precision for USD)

In other words:

- Take the trade quantity, as a positive number for a buy and a negative number for a sell.
- Multiply by the difference between the end of day settlement price and the original trade price.
- Multiply by the contract value factor (100 because the contract size is 100 troy ounces and the price is provided as the amount of USD per one troy ounce) and the discount factor.
- Round normally to the nearest penny (normal precision for USD).

If the result is a positive number, it becomes a performance bond credit, and if a negative number, a performance bond requirement.

CME Clearing – Acceptable Collateral

The acceptable types of collateral for performance bond deposits will be the same for Cleared OTC London Gold Forwards as for other products listed for trading and/or clearing by the CME Group exchanges. CME Clearing currently accepts a wide range of collateral types, including, but not limited to: Cash (U.S. & Foreign Currency), U.S. Treasuries, Select U.S. Gov't. Agencies, and Letters of Credit.

In addition to the above, physical gold held in allocated accounts at London depositories may be used to meet performance bond requirements.

- London Good Delivery specifications will apply to this form of collateral.
- The use of physical gold as collateral may require that additional documents be executed between Clearing Members and CME Clearing.

All collateral is subject to a liquidity haircut, which can fluctuate due to market conditions and is subject to change. The most up-to-date list of acceptable collateral is found on the CME Group's website at www.cmegroup.com/clearing.

Bookkeeping Processing

CME Clearing is working with bookkeeping software providers to ensure that Cleared OTC London Gold Forwards will be supported at an early date.

All standard clearing-system outputs will be provided, including FIXML trade confirmation messages and FIXML trade register files. In addition, to facilitate Clearing Firm processing of these trades, end-of-day datafiles will be provided as comma-separated-values (CSV) files which may easily be processed by spreadsheet or other software.

Trade processing functions in Front-End Clearing (FEC)

The trade type in FEC will be **OPNT** – short for “over-the-counter privately-negotiated trade.”

Trades will be available in FEC for post-execution account number and origin corrections until the contract maturity date. At launch, sub-allocations and cross-firm transfers will be accomplished via type 8 transfer transactions.

Position reporting and PCS

PCS data should be submitted for these products exactly as for any other product.

All account-level positions should be reported using the standard “large trader” file format, exactly as if these were futures-to-the-day. The reportable level will be 25 contracts. Data may either be included in the normal futures large trader file, or provided in a separate file.

Transfers and 'Tear-ups' prior to maturity

A 'tear-up' transaction allows a firm to liquidate an open position prior to its delivery date coming due. To accomplish a tear-up, a firm must first book an offsetting transaction, for the same account, value date and price as an original transaction, and for either the entire original quantity or for a partial quantity. The firm will then request the tear-up through the ClearPort Facilitation Desk. Note that the offsetting transaction may be with any counterparty, not necessarily the original one.

There will typically be a cash transaction associated with a tear-up, between the firm doing the tear-up and its counterparty for the tear-up transaction, to compensate for the market price at the time of the tear-up being different from original trade price. This cash movement must be specified at the time the tear-up is requested, and will be processed through the Clearing Firm's normal USD settlement bank account.

Note that tear-up transactions are not transfers. If a trade must be transferred from one Clearing Firm to another, **a transfer** transaction should be cleared at original trade price. Then, upon request by the original Clearing Firm, the original transaction and the transfer transaction will be removed.

Final Delivery Procedures

Deliveries processing

For physical delivery, participants will establish unallocated gold bullion accounts at any of the LPMCL banks. Standing settlement instructions will be provided to CME Clearing for each clearing position account, and may be provided for specific customer accounts. The delivery process will work as follows:

- At the close of business on the clearing processing day prior to the value date, all open trades for that value date will be selected.
- For each customer account for which specific standing settlement instructions have been provided, trades for that account will be selected and netted separately.
- Remaining trades for each clearing position account will then be netted.
- The resulting delivery obligations will be provided to participants by reports and datafiles, to facilitate reconciliation of delivery amounts.

Reports will be provided to participants showing delivery obligations. A preliminary report will be provided on the second day prior to the value date, and the final report on the day prior to the value date.

Note that 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.

At maturity, gold will be delivered at unallocated accounts in London according to the LBMA's Good Delivery rules. CME will open accounts at one or more LPMCL banks to facilitate this process. CME will not become a bullion clearing bank itself or manage vault facilities which hold precious metals in storage.

However, CME Clearing will become counterparty to every buyer and seller for facilitating settlement transactions upon delivery. Each buyer and seller will look to CME Clearing for performance on delivery. This process will mitigate the bilateral exposure between counterparties and significantly reduce failures. Operational efficiencies will be achieved by all parties.

The delivery process will work as follows:

CME Clearing will act as a link in the delivery chain, for both Gold and US Dollars.

- CME Clearing creates all Gold and US Dollar payment messages on the day before the delivery day.
- CME Clearing will concurrently make and take deliveries, as is possible, throughout delivery day.

For Gold flows

- CME Clearing will require the transfer of Gold from the seller's Clearing Member to CME Clearing during the London morning, and following the receipt of US Dollars, will transfer Gold to the buyer's Clearing Member.
- If the Clearing Member agrees, Gold may be transferred to/from the account of the customer; however, the Clearing Member, as guarantor, remains responsible for the performance of all delivery requirements.
- CME Clearing transfers unallocated gold between CME Clearing's account at one or more of the LPMCL banks to the designated account of the counterparty.
- CME Clearing intends to open accounts at one or more LPMCL banks to facilitate the delivery of gold.

For US Dollar flows

- US Dollars will flow from the buyer's Clearing Member to CME Clearing when US banks are open, and subsequently will flow from CME Clearing to the seller's Clearing Member, provided Gold has been delivered. Clearing Members will manage the cash flow between themselves and their customers.
- CME Clearing creates MT204 messages to action the calculated US Dollar amounts at the Clearing Member's designated bank.
- The MT204 message is sent by an exchange or clearing house, or another financial institution to a SWIFT member or sub-member, to instruct the Receiver of the message to debit the account(s) of a third party specified in the message and to pay or credit the corresponding amount in favour of the Sender of the message

Delivery and Settlement Timeline

Delivery Date -2:

- Preliminary report of delivery obligations is produced which is available via CSV file.

Delivery Date -1:

- Final report of delivery obligations is produced which is available via CSV file.
- CME Clearing computes the net amounts for each account. This includes spot, forward and tom trades.
- CME Clearing creates USD debit instructions prior to End-Of-Day that are fed into the regular trading hours settlement cycle. US Dollar credit and debit instructions are sent to banks on the morning of settlement.
- Gold movements will be netted at the Customer Account level and USD movements will be netted at the Clearing Firm Origin level.
 - Customer Accounts may only have one set of Gold instructions per account number

Delivery Date:

- CME Clearing will require the transfer of Gold from the seller's Clearing Member to CME Clearing during the London morning, and following the receipt of US Dollars, will transfer Gold to the buyer's Clearing Member
- If the Clearing Member agrees, Gold may be transferred directly to/from the account of the customer to the CME; however, the Clearing Member, as guarantor, remains responsible for the performance of all delivery requirements
- At 1:00 p.m. London* (8:00 a.m. NY/7:00 a.m. Chicago) Gold payments from sellers due at CME Clearing's bullion bank account. CME Clearing starts confirming receipt of Gold payments from sellers.
- US Dollars will flow from the buyer's Clearing Member to CME Clearing once US banks are open, and subsequently will flow from CME Clearing to the seller's Clearing Member, provided Gold has been delivered. Clearing Members will manage the cash flow between themselves and their customers.
- At 1:30 p.m. London (8:30 a.m. NY/7:30 a.m. Chicago) Settlement Banks confirm the US Dollar debits at CME Clearing dollar accounts. Upon confirmation, the buyer's gold can be released from the bank.
- At 2:00 p.m. London (9:00 a.m. NY/8:00 a.m. Chicago) CME Clearing begins releasing gold to buyers and USD to sellers.
- By 4:00 p.m. London (11:00 a.m. NY/10:00 a.m. Chicago) CME Clearing will have released all Gold to buyers who have completed delivery.

- By 6:00 p.m. London (1:00 p.m. NY/12:00 noon Chicago) CME Clearing will have released all USD to sellers who have completed delivery. USD may be released earlier as the opposing Gold is posted in CME Clearing's account.

It should be noted that Gold and USD may be received after these times due to settlement banks' operational procedures.

*Twice per year when daylight savings time adjusts, there will be +/- one hour differences between the U.S. and U.K. time zones as stated from the above times listed.

Delivery Guarantee

CME Clearing is the counterparty to every delivery, and will guarantee financial performance at delivery. While it is not possible to provide an absolute guarantee for the physical delivery of gold, CME Clearing will endeavour to ensure that it is only in cases of severe market disruption that unallocated delivery does not occur.

In cases where gold has not been delivered promptly to CME Clearing, in order to deliver gold to buyers, CME Clearing will endeavour to obtain gold through overdraft facilities or through same day market purchases using USD delivered by the buyer. In cases where USD has not been delivered promptly to CME Clearing, in order to deliver USD to sellers, CME Clearing will endeavour to obtain USD through overdraft facilities or through same day market sales using gold delivered by the seller.

In the extreme cases where it is not possible to perform these operations, CME Clearing will guarantee receipt of the financial equivalent, including reasonable costs for establishing a replacement position.

Regulatory Oversight, Reporting and Rulebook

Regulatory Status

In the U.S., CME is a registered derivatives clearing organization (“DCO”) subject to the oversight of the Commodity Futures Trading Commission (“CFTC”). In the U.K., the CME has the status of a Recognised Overseas Clearing House (ROCH). The clearing of OTC London Gold Forwards will be governed by the U.S. regulatory framework.

CME is not seeking to alter the terms within the U.K. regulatory environment for transacting physically delivered gold, and our analysis is that Cleared OTC London Gold Forwards will continue to be viewed as “Non-investment Products”⁴. The retention of this existing regulatory status should allow U.K. firms currently trading OTC gold forwards to clear these trades through CME ClearPort, without this service impacting their regulatory supervision. However, each participant is encouraged to confirm its own regulatory status and requirements with its own advisors prior to submitting a London Gold Forward transaction to CME for clearing.

The CFTC regulatory framework will underpin the financial safeguards package for Cleared OTC London Gold Forwards, while these contracts remain open positions with CME Clearing.

Upon reaching delivery, the settlement payments and receipts will take place at nominated Banks, in the U.K. for unallocated gold, and in the U.S. for dollars. These settlements are outside of CFTC regulatory oversight and subject to standard banking practices.

⁴ It is also our understanding that the Financial Services Authority (“FSA”) accepts this view. However, we cannot bind the FSA, nor are we giving legal advice.

CME Clearing will require Clearing Members to report house and customer positions to CME Clearing for risk management and accountability level purposes. Accountability levels will be set by CME Clearing.

CME Group Rulebooks

When customers enter OTC gold transactions into CME ClearPort, their transactions will be cleared by CME as Cleared OTC London Gold Forwards and will be governed by the appropriate CME Group rulebooks. Within CME Group, CME, CBOT, NYMEX and COMEX are separate self-regulatory organizations (“SROs”), and each therefore maintains its own rules. London Gold Forwards will be listed by COMEX for clearing-only. Because COMEX is a division of NYMEX, COMEX rules are contained in the NYMEX rulebook. Product specifications for Cleared London Gold Forwards, reflecting existing market practice, are set forth in Chapter 334 of the NYMEX Rulebook and position accountability requirements are in Chapter 5 of the NYMEX Rulebook. Clearing Members that clear London Gold Forwards will also be subject to rules in the NYMEX rulebook that are generally applicable to clearing members in Chapter 4 (Enforcement of Rules), Chapter 6 (Arbitration), Chapter 7b (Delivery Facilities and Procedures), Chapter 8 (Clearing House and Performance Bonds), and Chapter 9 (Clearing Members), as applicable. The clearing and settlement of transactions in Cleared London Gold Forwards will also be subject to the provisions of Chapter 8-F of the CME Rulebook (Over-the-Counter Derivative Clearing).

Reportable Levels

Clearing Members will be required to provide CME Clearing with information on all customers and house accounts that hold positions of 25 contracts (i.e. 2,500 ounces) or more for any delivery date.

Accountability Levels

CME Clearing will require Clearing Firms to report house and customer positions by account holder to CME Clearing. This is performed via CME Group’s large position reporting system, and will be incorporated within this existing procedure. CME Clearing will also implement “position accountability”, which will require Clearing Firms to provide information about the nature of their positions to CME Clearing, upon its request, if their positions exceed certain defined levels. There is currently no requirement that positions in Cleared OTC London Gold Forwards be reported to the CFTC.

Accountability levels for Cleared OTC London Gold Forwards are set at 10,000 net contracts per delivery date for each of the last eight (8) trading days prior to the contract delivery date, as reflected in Appendix A to Chapter 5 in the NYMEX Rulebook.

House and Customer Accounts

Trades may be cleared for both house (proprietary) and customer accounts. Trades for house and affiliate accounts will be held together with other house positions. CME Clearing will give 30.7 “Secured” treatment to customer positions. This treatment requires that Clearing Members

account for positions and property of customers separately from the positions and property held in customers' 4d accounts⁵, and separately from positions and property of the Clearing Member. Therefore, firms clearing this business will be required to have 30.7 Secured bank accounts for the deposit of customer funds and property related to Cleared OTC London Gold Forwards. Such 30.7 Secured treatment allows Clearing Members flexibility in collecting collateral from their customers and in calculating capital requirements.⁶

At a later stage, following customer consultation, CME may apply to the CFTC for an order allowing 4d segregation to be applied to Cleared OTC London Gold Forwards. If the CFTC were to issue such an order, one benefit of using 4d segregated accounts would be that CME Clearing would be permitted to provide margin offsets more efficiently for customer accounts with respect to related futures and options, for example, with respect to COMEX Gold futures and options. House accounts will be eligible to receive such margin offsets from day one.

Eligibility to Clear OTC London Gold Forwards through CME ClearPort

Access to the CME ClearPort clearing service will be restricted. Only those firms that have established and funded clearing accounts at CME Clearing will be eligible to hold Cleared OTC London Gold Forwards positions at CME Clearing. In addition, only those customers that meet the definition of "Eligible Contract Participants" ("ECPs") as defined by in the Commodity Exchange Act can hold cleared forwards positions.

- Those firms that have established and funded clearing accounts with CME Clearing will be eligible to clear OTC London Gold Forwards with CME Clearing.
- Persons and entities that are parties to Cleared OTC London Gold Forwards must meet the definition of "Eligible Contract Participants (ECPs)" as defined in Section 1a (12) of the Commodity Exchange Act (2000).
- ECPs include various regulated entities, companies, 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 at least \$10 million in assets.

⁵ Funds margining exchange-traded futures and options are held in segregated accounts under Section 4d of the Commodity Exchange Act ("4d accounts"), as well as funds margining certain cleared OTC products where the CFTC has granted a clearing organization's request for a "4d order".

⁶ On August 13, 2009, the CFTC published proposed rules for public comment that would establish a "cleared OTC derivatives account class" under its Part 190 bankruptcy rules. If the CFTC adopts its proposed rules, customer positions in Cleared OTC London Gold Forwards may be transferred into a new type of account for cleared OTC derivatives only. However, it is unclear at this time when and in what form the CFTC may adopt relevant rules.

- 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 the authority to designate other parties as eligible contract participants based on their financial or other qualifications.

Fees and Charges

A clearing fee will be charged to the buyer and seller per 100 ounce unit of each submitted cleared transaction. Fees are calculated and billed monthly via Clearing Firms.

Clearing fees will be established on a scale that increases with the maturity of the transaction, as described below. Calendar dates applying to each fee subdivision will be published daily on CME Group's website, and will follow standard interbank day count calendars for example 1, 2, or 3 month.

- Clearing fees will be set on a dollars and cents per side (100oz) basis
- Fees be defined separately for member and non-member transactions
- An additional delivery fee will be charged on the net amount of gold delivered on each business day.

Transaction Maturity	Member Clearing Fee	Non-Member Clearing Fee
Tom and Spot	\$0.10	\$0.15
T+3 to 1 Month	\$0.16	\$0.24
1-3 Months	\$0.20	\$0.30
3-6 Months	\$0.50	\$0.75
6-12 Months	\$0.80	\$1.20
1-3 Years	\$1.00	\$1.50
3-5 Years	\$2.00	\$3.00
5 Years +	\$4.00	\$6.00

CME Group reserves the right to change clearing fees upon written notice

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