

# A Summary of CME Group's Cleared Only Gold and Silver Forwards



The over-the-counter market for gold and silver forwards, based on loco London delivery, is an important part of the global bullion market. CME Group supports this market through its offering of a central counterparty clearing service for these transactions.

## Clearing forwards transactions at CME Group provides significant benefits:

- **Consolidated exposure.** Holding positions against a single central counterparty allows traders to offset long and short positions, reducing net counterparty exposure, and the capital required to support these positions.
- **Enhanced efficiency.** Processing transactions through CME ClearPort reduces the post-trade operational and documentation requirements. Deliveries are netted, resulting in one payment and one delivery each day.
- **Counterparty risk mitigation.** With a CCP model, the Clearing House assumes the role as counterparty to all trades, calls margin daily and manages a guarantee fund to cover exposures. This frees up bilateral credit lines that would otherwise be applied to each trade.
- **Cross margin savings.** Where there are offsetting positions, CME's performance bond for cleared forwards can be offset against the performance bond on the benchmark COMEX Gold (GC) and Silver (SI) futures contracts. At the time of writing, this offset is as high as 90% for each of the legs.

## CME Group's clearing service for gold and silver forwards works as follows:

- Trades are executed OTC, and subsequently posted to CME for clearing.
- Trades are submitted for clearing via the CME ClearPort service.
- Positions are cleared as OTC forwards – they are not converted to futures positions.
- Positions are held in a cleared OTC account.
- Each transaction creates a position that is held open until expiry. As forwards, positions are held open on a gross basis at their original trade price
- On expiry, delivery obligations for the value date are netted, such that there is a single delivery and cashflow payment with the Clearing House.
- Delivery of bullion occurs through loco London unallocated accounts operated by LMPCL member banks.

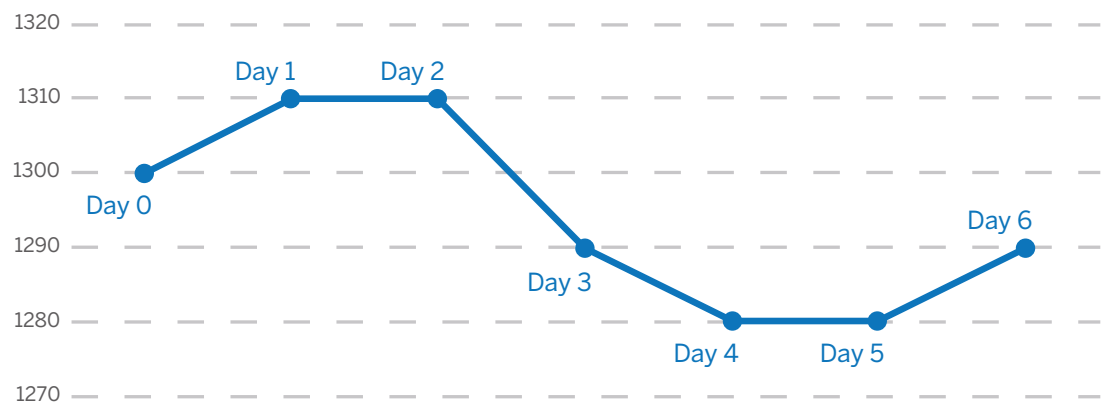
## Gold and silver forwards can be submitted for clearing where they have the following specifications:

	Gold	Silver
<b>Contract Size</b>	Any multiple of 0.001 troy ounce	Any multiple of 0.001 troy ounce
<b>Pricing</b>	US dollars and cents per ounce. Minimum price increment of \$0.001 per troy ounce.	US dollars and cents per ounce. Minimum price increment of \$0.00001 per troy ounce.
<b>Delivery Date</b>	Any business day from the next good delivery day (T+1) up to ten years from spot	Any business day from the next good delivery day (T+1) up to five years from spot
<b>Delivery</b>	Physical delivery of London good delivery gold via unallocated accounts held at LPMCL banks. Delivery to occur at the original trade price	Physical delivery of London good delivery silver via unallocated accounts held at LPMCL banks. Delivery to occur at the original trade price

As forwards contracts, the clearing process has some features which differ from futures:

- Each transaction is held as an open position until expiry. Forwards transactions result in value being assigned to the expiry date, and the clearing process respects this valuation process.
- As a consequence, settlement prices represent forward value, and are discounted to present value terms in order to determine margin requirements.
- For gold, CME offers daily mark-to-market margining in either cash or collateral. For silver, mark-to-market margining in cash is supported.
- For contracts with cash mark-to-market, CME also requires payment/collection of price alignment amount (PAA), which aligns the settlement variation amount for cleared positions with equivalent positions held OTC.
- Delivery occurs at the original transaction price, and any accrued mark-to-market is re-credited as part of the payment calculation.

Here is an example of the cashflows for a cleared gold forward contract:



Trade on Day 0: 1000oz @ \$1300 / oz for delivery on Day 7

Settlement	1300	1310	1310	1290	1280	1280	1290	
Initial Margin	-48,000.000							48,000.000
Variation Margin	0.000	9,995.558	0.555	-19,992.780	-9,997.78	-3.332	9,998.334	9,999.444
PAA		0.000	-0.006	-0.006	0.006	0.033	0.011	0.006
Delivery Payment								-1,300,000.000
Day	Day 0	Day 1	Day 2	Day 3	Day 4	Day 5	Day 6	Day 7

Variation margin based on discounted forward value

Price alignment amount based on accrued mark-to-market

Variation margin re-credited on delivery

Delivery at original trade price, not market price