

Cleared OTC London Gold Forwards Service Summary

Clearing bullion transactions through CME ClearPort

Futures trading is not suitable for all investors, and involves the risk of loss. Futures are a leveraged investment, and because only a percentage of a contract's value is required to trade, it is possible to lose more than the amount of money deposited for a futures position. Therefore, traders should only use funds that they can afford to lose without affecting their lifestyles. And only a portion of those funds should be devoted to any one trade because they cannot expect to profit on every trade.

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All matters pertaining to rules and specifications herein are made subject to and are superseded by official CME, CBOT, NYMEX and CME Group rules. Current rules should be consulted in all cases concerning contract specifications.

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Cleared OTC London Gold Forwards

The CME ClearPort clearing service will facilitate the clearing, settlement and delivery of loco London gold transactions.

- Clearing coverage for all good forward maturities from “tom” out 10 years that are deliverable into unallocated “London Good Delivery” gold as defined by the LBMA.
- This is a post-trade ‘clearing only’ service. No exchange sponsored execution platform is provided.
- Post trade capture is through CME ClearPort using existing web-based technology which places matched trades into the Front End Clearing System (‘FEC’), and into clearing firms’ accounts.
- Contracts remain as forwards in clearing. Every trade establishes a new open position. There is no liquidation, except through CME Clearing’s tear-up facility. Upon reaching delivery, positions are netted down; CME Clearing passes instructions to position holders, and delivery occurs at LPMCL member firms using “London Good Delivery” standards.
- Open trades are held on a gross basis at original trade price.
- Each business day, every open trade is marked to market from original trade price to the daily settlement price. These variation amounts are “collateralized” – losses increase the amount of amount of collateral that must be posted to meet your initial margin requirement, while gains decrease it. Gains in excess of that amount may offset margin requirements on other cleared positions.
- One 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 dollars.

Contractual Aspects of Clearing

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, i.e., they are not extinguished and replaced by positions in regulated futures contracts.
- Each contract is specific to, and uniquely identified by, the value date for physical delivery.
- CME Clearing is introduced as the central counterparty to the transaction through a process of contract novation.
- 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.
 - Customer positions must be held in a Cleared OTC Derivatives Customer Sequestered account.
- CME Group has published 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.

CME Group Rulebooks

Within CME Group, CME, CBOT NYMEX and COMEX are separate self-regulatory organizations, and each therefore maintains its own rules

COMEX is a division of NYMEX. Rules for COMEX contracts can be found within the NYMEX Rulebook

Cleared OTC London Gold Forwards is a COMEX product listed for clearing-only. Product specifications are in the NYMEX Rulebook

Rules governing delivery for Cleared OTC London Gold Forwards will also be held within the NYMEX Rulebook.

Clearing processing is performed by the Clearing division of CME. The rules governing clearing are found in the CME Rulebook



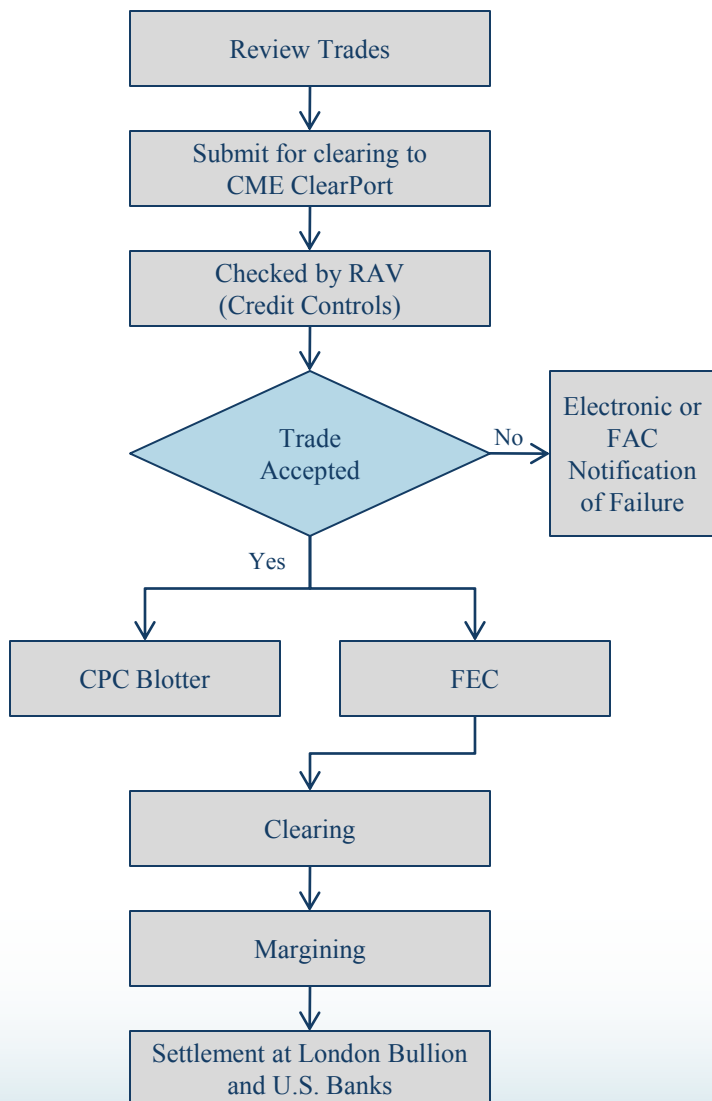
Contract Specifications

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 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. The resulting settlement variation is "collateralized" -- losses increase the amount of collateral that must be posted to meet the initial margin requirement, while gains decrease it. Gains in excess of the initial margin requirement may offset risk on other cleared positions.
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.

* This is a post trade 'clearing only' service. Trades are held open on a gross basis at original deal price.



CME ClearPort Trade Submission Process Flow



- OTC trades are substituted with Cleared Trades and maintained in accounts with each clearing member at the original trade price, delivery date and volume.
 - CME Clearing substitutes itself as the counterparty to each party to the original trade
 - Firms receive a trade register informing them of the deals accepted by CME ClearPort
- CME ClearPort will accept trades from multiple sources.
 - Directly from the customer, broker, clearing firm via FEC
 - CME ClearPort web-based trade reporting applications
 - CME ClearPort API
- Clearing members and account holders receive confirmations from CME ClearPort when trades are substituted.
 - Acceptance or rejection notices are sent
 - Trade Confirmation
 - Trade Notification
 - Daily Trade Register
- CME Clearing margins and marks to market all positions.
 - For house positions, margin offsets will be available with respect to other positions held in CME Clearing
 - Mark to market is collateralized - increasing or decreasing the required performance bonds needed to hold Gold Forward positions
- CME Clearing facilitates the delivery of Gold and US Dollars.
 - USD and Gold moved concurrently on the Delivery Date, as far as possible

Daily Settlement Process

- Settlement prices for Cleared OTC London Gold Forwards reflect time to maturity and U.S. Dollar interest rates. Prices are derived by starting with the spot price and calculating the U.S. Dollar interest rate and 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 1:30pm New York time (typically 6:30pm 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.

Cleared OTC London Gold Forwards		
Trade Date		Jun 01, 2011
Daily Market Volume		0
Aggregate Open Positions		0
	Settlement Price	Contract Date
Spot	1541.450	Jun 03, 2011
1-Week	1541.530	Jun 10, 2011
2-Week	1541.610	Jun 17, 2011
1-Month	1541.860	Jul 05, 2011
3-Month	1542.870	Sep 06, 2011
6-Month	1544.520	Dec 05, 2011
9-Month	1546.360	Mar 05, 2012
1-Year	1548.580	Jun 06, 2012
2-Year	1564.460	Jun 03, 2013
3-Year	1597.300	Jun 03, 2014
4-Year	1646.240	Jun 03, 2015
5-Year	1707.690	Jun 03, 2016
7-Year	1855.800	Jun 04, 2018
10-Year	2112.130	Jun 03, 2021

Daily Settlement Process (cont.)

CME will provide daily settlement prices for mark-to-market. These prices are not intended for fulfilling any other purpose, such as a public price reference. The settlements are compiled through the following process:

- Price data obtained from a cross-section of over-the-counter ("OTC") brokers collectively representing both buyers and sellers in OTC markets.
- Price data obtained from OTC market participants, considering both buyers and sellers in such markets.
- Price data from other sources deemed to be reliable and accurate.
- Other relevant data and information.
- Exchange staff evaluates all of this information and validates settlement prices for the Cleared OTC London Gold Forward contracts.
- 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

- Initial margins ('performance bonds') are calculated using SPAN on the entire portfolio of open positions held at CME Clearing. The initial margin requirement reflects the maximum reasonably likely loss which the portfolio may incur over the next business day.
- Each open gold forward trade is marked-to-market, from original trade price, to today's settlement price, and these amounts are discounted to present value using the discount rate appropriate to that contract maturity and then netted together: A net loss increases the margin requirement, while a net gain decreases it.
- The haircutted market value of assets posted as margin collateral, is then compared against the total initial margin requirement:
 - Excess collateral on deposit may be withdrawn to the amount of the excess.
 - Deficits are called for in USD cash on the morning of the next banking business day. (The clearing firm may then substitute other collateral and withdraw the cash.)
- Margin offsets are recognized between Cleared OTC London Gold Forwards and other CME Group contracts, but only for house (proprietary) accounts at this time..
- The margin requirement is released at the intraday settlement cycle on the value date.

Performance Bonds

- The acceptable types of collateral required for performance bond deposits will be the same for Cleared OTC London Gold Forwards as used for other products listed for trading and/or clearing by the CME Group exchanges.
- CME Clearing currently accepts a wide range of collateral types for performance bonds, 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 for this form of collateral
 - The use of physical gold as collateral may require additional documents to 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.

Gold Forward Delivery Example

USD Flows:

- Long gold: USD will move thru Clearing Firm USD variation accounts @ 13:30 LDN (7:30 AM Chicago)
- Short gold: USD will move once the opposing Gold has been received by CME Clearing Bullion Account via MT202 to the Short Clearing Firm

Gold Flows:

- Short gold: Gold needs to be paid to CME Clearing's Bullion Account by 13:00 LDN
- Long gold: Gold will be released to specified bullion accounts by 16:00 LDN, once dollars have been received

Gold may be delivered directly to a customer's bullion account if permitted by the customer's Clearing Firm

USD will be delivered to the Clearing Firm

Example: All Cleared Trades for Hypothetical Delivery Date 26 October 2011

Firm A House:

Buy 100,000 Oz @ 1500.00 and Sell 150,000,000 USD

Sell 50,000 Oz @ 1501.00 and Buy 75,050,000 USD

Net Obligation: Buy 50,000 Oz and Sell 74,950,000 USD

Firm A Cust:

Buy 26,000 Oz @ 1505.00 and Sell 39,130,000 USD

Sell 25,000 Oz @ 1503.00 and Buy 37,575,000 USD

Net Obligation: Buy 1,000 Oz and Sell 1,555,000 USD

Firm B Cust:

Sell 100,000 Oz @ 1500.00 and Buy 150,000,000 USD

Buy 50,000 Oz @ 1501.00 and Sell 75,050,000 USD

Net Obligation: Sell 50,000 Oz and Buy 74,950,000 USD

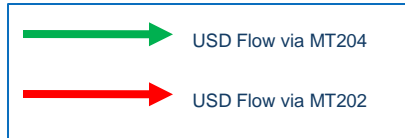
Firm B House:

Sell 26,000 Oz @ 1505.00 and Buy 39,130,000 USD

Buy 25,000 Oz @ 1503.00 and Sell 37,575,000 USD

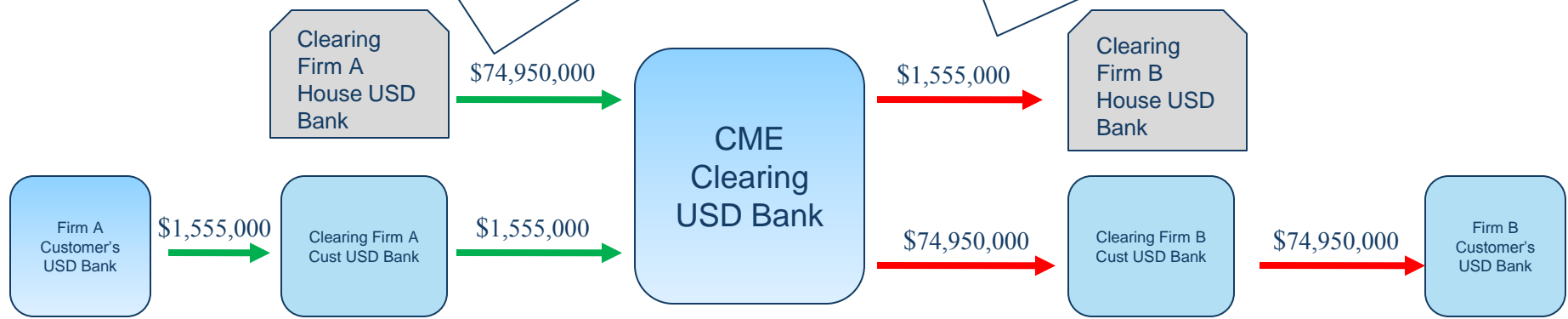
Net Obligation: Sell 1,000 Oz and Buy 1,555,000 USD

USD Movements



USD movements to CME Clearing happen @ 13:30 LDN (7:30AM CST) from CMF thru standard variation cycle

USD movements from CME Clearing happen anytime prior to 10:00 PM LDN (4:00PM Chicago) to CMF Wires. USD released once Gold is in our Bullion Account



Delivery Timeline

1 Day Prior to Delivery Day

CME Clearing nets all trades for the same Delivery Day to the extent possible. SWIFT messages are created, passed to banks.

CME Clearing debits USD from clearing member accounts

Delivery Day

CME Clearing receives Gold payments from sellers.

CME Clearing starts releasing USD to the sellers based on Gold receipts. Also starts monitoring USD receipts from the buyers. As USD are received CME Clearing releases Gold payments.

Final deadline for CME Clearing to release Gold for completion of delivery.

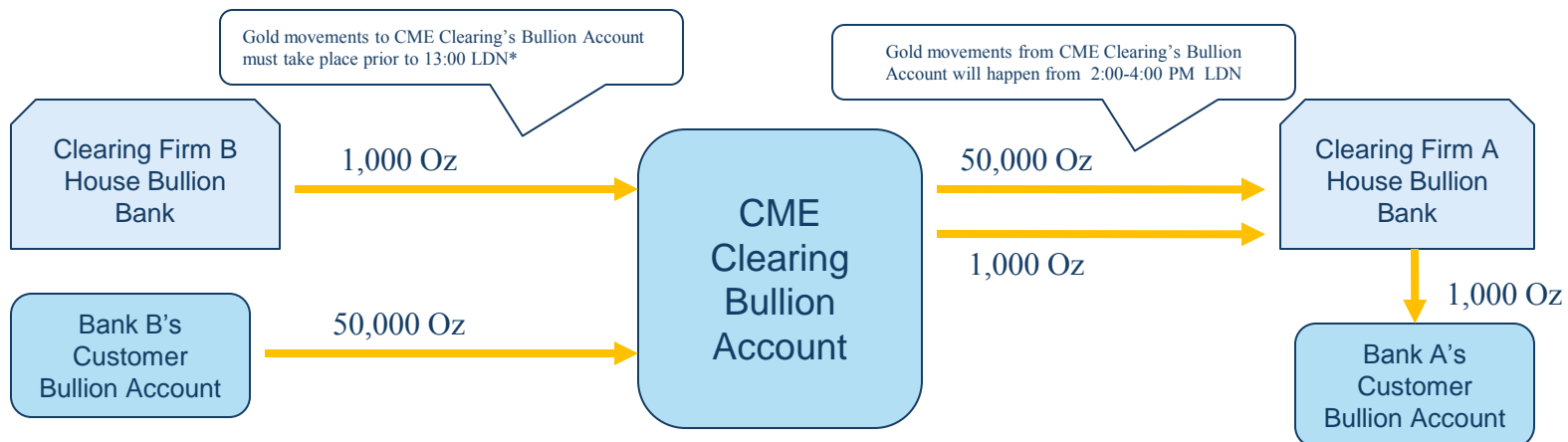
Final deadline for CME Clearing to release USD for completion of delivery.

London Time	13:00*	13:30	14:00	16:00	18:00
New York Time	08:00	08:30	09:00	11:00	13:00
Chicago Time	07:00	07:30	08:00	10:00	12:00 noon

* 13:00 LDN may be modified to be 12:00 LDN



Gold Movements



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CME Clearing nets all trades for the same Delivery Day to the extent possible. SWIFT messages are created, passed to banks.

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London Time	13:00*	13:30	14:00	16:00	18:00
New York Time	08:00	08:30	09:00	11:00	13:00
Chicago Time	07:00	07:30	08:00	10:00	12:00 noon

* 13:00 LDN may be modified to be 12:00 LDN

Delivery Approach

- 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 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.
- Once the short has delivered the gold, CME Clearing will send an MT202 from the clearing account to the appropriate settlement account of the short clearing firm by 18:00 LDN or 13:00 ET

'Tear-up' Facility

- A 'Tear-up' transaction allows a firm to liquidate an open position held at CME Clearing prior to its delivery date coming due. This realizes the cash flow embedded in the position.
 - This process requires that the account holder enters into an equal and opposite position (same price and delivery date) in CME Clearing, either with the original counterparty or a third party willing to take the other side of the trade.
 - In many cases, a 'tear-up' will include a cash payment between the two firms to compensate for the market price at the time of the tear-up being different from the original trade price.
 - You can tear up part or all of a trade.
 - Once you've got the offsetting transaction cleared, you simply instruct the Clearing House to tear up the original transaction and the offsetting one. We do so, removing the two transactions, and banking the cash amount that you specified.

Regulatory Oversight and Reporting

- Cleared OTC London Gold Forwards are not regulated in the same way as futures contracts within either the U.S. or the U.K. Market. Specifically, Cleared OTC London Gold Forwards are not regulated futures contracts.
- The CFTC regulatory framework will underpin the financial safeguards package for Cleared OTC London Gold Forwards. Trades can be cleared for both House and Customer accounts at CME Clearing.
- CME Clearing will require Clearing Members to report house and customer positions to CME for risk management and accountability level purposes.
- Accountability levels for Cleared OTC London Gold Forwards are currently set at 10,000 net contracts per delivery date for each of the last eight (8) trading days prior to the contract delivery date.
- Customer positions are held in the “Cleared OTC Customer Sequestered” regulatory class. This treatment requires that Clearing Members account for positions and property of customers separately from the positions and property held in customers’ 4d accounts, and separately from that of the Clearing Member.
- House accounts will be eligible to receive margin offsets from day one between Cleared OTC London Gold Forwards and specific CME Group exchange futures contracts. (see margin tables supplied by CME).

Eligibility to Clear OTC London Gold Forwards at COMEX

- Those firms that have established and funded clearing accounts with CME Clearing will be eligible to hold Cleared OTC London Gold Forwards with CME Clearing.
- Persons and entities that are parties to Cleared OTC London Gold Forwards transactions must meet the definition of “Eligible Contract Participants” (ECPs) as defined in Section 1a (12) of the Commodity Exchange Act.
- 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.
- 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 the clearing firms.
- Clearing fees will be established on a scale that increases with the maturity of the transaction. 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
 - Will 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.

London Gold Forwards ClearPort Exchange Fees		
<u>Transaction Maturity</u>	<u>Member</u>	<u>Non-Member</u>
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

Fees shown are USD per 100oz lot

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