

## Cleared OTC London Gold Forwards FAQs

### 1. What are Cleared OTC London Gold Forwards?

Cleared OTC London Gold Forwards are OTC spot and forward London Gold transactions that are cleared by CME Clearing. This service facilitates the clearing, settlement, and delivery of unallocated Loco London gold transactions while also offering: Credit risk mitigation through a centralized counterparty Post trade 'clearing only' service.

In addition:

Contracts remain as OTC forwards in clearing

Available through CME ClearPort

Trades are held open on a gross basis at original trade price

Initial and variation margins are applied to positions with a daily mark-to-market process

### 2. What type of OTC gold trades can be submitted for CME Clearing?

CME Clearing will accept matched transactions for clearing that fulfill the contract specifications and good delivery dates as defined under COMEX rules and regulations. CME Clearing adheres to the gold specifications as defined by the LBMA for "London Good Delivery" at unallocated accounts at London Precious Metals Clearing Ltd. ("LMPCL") banks. Exact specifications can be found at the [LBMA website](#).

### 3. What is CME ClearPort?

CME ClearPort is a comprehensive set of flexible clearing services for the OTC market. Launched in 2002 to provide centralized clearing services and mitigate risk in the energy marketplace, today CME ClearPort clears transactions across multiple asset classes. With OTC clearing through CME ClearPort, you can continue to negotiate your own prices privately and conduct business off exchange – but you gain increased security and efficiency.

- a. Clears more than 700,000 contracts daily
- b. Brings together more than 17,000 registered users – commercial, banking, hedge funds, trading entities – IDBs, FCMs and Clearing Firms
- c. Features more than 1,500 listed contracts available for clearing with more to come

4. How do I register and how do I begin to input my Cleared OTC London Gold Forward trades?

To register for clearing through CME ClearPort, you must establish an account with a COMEX Clearing Member and complete the [Exchange User License Agreement \(EULA\)](#) available at [www.cmegroup.com/clearport](http://www.cmegroup.com/clearport). Once you have received your username and password, contact your Clearing Member Firm and request that your clearing account be added to RAV (Risk Allocation Value) Manager. You will then give permission for any OTC broker who may be entering trades for clearing on your behalf.

5. How are OTC trades entered for clearing into CME ClearPort?

CME ClearPort trades may be entered in three ways:

- a. Through a broker using the CME ClearPort Web-based User Interface (GUI)
- b. Through a trader who calls the CME ClearPort facilitation desk
- c. Through a third-party matching/confirmation platform connected to the CME ClearPort API

6. Who is eligible to hold positions in Cleared OTC London Gold Forward trades on CME ClearPort?

Access to the clearing service for Cleared OTC London Gold Forwards will be restricted to those firms that have established and funded clearing accounts at CME Clearing. In addition, only those market participants that meet the definition of “Eligible Contract Participants” (ECPs) as defined in Section 1a (12) of the [Commodity Exchange Act](#) will be permitted to clear their trades. 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 over \$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 authority to designate other parties as eligible contract participants based on their financial or other qualifications.

7. How are daily settlements processed?

Every business day that CME Clearing is open, CME Clearing provides a settlement price for every open position and marks-to-market each open trade from its original price to the daily settlement price.

8. What are the margins on Cleared OTC London Gold Forwards?

Initial and variation margins are applied to positions and any daily P&L is held unrealized in accounts with any deficit being collected daily and any surplus remaining in the account. These +/- differences are discounted to present value and the resulting net discounted mark-to-market amount is collateralized. Any collateralized credit may offset margins called on other risk positions held in CME Clearing with respect to house positions.

9. How is this service regulated?

CME Clearing is a derivatives clearing organization regulated by the CFTC within the U.S. and has recognized overseas clearing house status from the UK Financial Services Authority. Cleared OTC London Gold Forwards are not regulated in the same way as futures contracts within either of these jurisdictions; however, the CFTC will require COMEX Clearing Member Firms to separate house and customer positions at CME Clearing. As part of the risk management process, CME Clearing will also implement "position accountability," which may require Clearing Firms to provide information about the nature of their positions to the CME Clearing, upon request, if the positions exceed certain levels.

10. Are there any delivery position limits?

No, because these are cleared OTC forwards and NOT futures, there is no requirement at this time to impose delivery position limits.

11. Are there any reporting requirements?

Clearing Member Firms 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. There is currently no requirement that positions in Cleared OTC London Gold Forwards be reported to the CFTC.

12. Can Cleared OTC London Gold Forward positions be used to offset any credits/debits on open gold futures positions on COMEX?

Margin offsets are provided for house accounts between Cleared OTC London Gold Forwards and related futures contracts, in particular COMEX gold futures.

For more information on regulatory treatment of Cleared OTC transactions, please visit [www.cmegroup.com/clearing](http://www.cmegroup.com/clearing).

13. What Exchange rules govern this service?

Product specifications for Cleared OTC 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 OTC London Gold Forwards are also subject to the provisions of Chapter 8-F of the CME Rulebook (Over-the-Counter Derivative Clearing).

14. What happens when a position comes to delivery?

When positions come to delivery, each account holder's open long and short positions are netted off to a single gold and dollar credit/debit. CME Clearing remains in the delivery chain all the way through settlement, for gold and dollars. All settlements are between CME Clearing and the Clearing Firms/customers.

15. What market data is made available?

End-of-day settlement prices are published for contracts with open positions via the CME SPAN files. In addition, aggregated trade volume, open interest and a discrete set of forward prices will be published daily on the website and in the Daily Bulletin.

16. What is the cost for this clearing service?

Clearing fees can be found at [www.cmegroup.com](http://www.cmegroup.com).

17. What are the margin requirements for these contracts?

The margin (performance bond) requirement for Cleared OTC London Gold Forwards is subject to change. Please visit [www.cmegroup.com](http://www.cmegroup.com) for updates.

18. What are the specifications for trades that can be submitted to clearing?

The contract size is .001 fine troy ounces. Prices are quoted in minimum increments of \$0.001 per ounce. For a complete list of contract specifications, please visit [www.cmegroup.com/lgf](http://www.cmegroup.com/lgf).

19. What is the product code?

GB

20. How are the contracts guaranteed?

CME Clearing provides two forms of guarantee: a counterparty guarantee and a delivery guarantee.

When OTC forward trades are submitted into the clearing system and accepted for clearing, CME Clearing becomes the counterparty to every buyer and seller. The original counterparties will then look to CME Clearing for financial performance during the life of the transaction.

The second guarantee applies to performance with respect to delivery obligations. With Cleared

OTC London Gold Forwards, CME remains in the delivery chain 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 the delivery of gold does not occur. In any such circumstances, CME Clearing will guarantee receipt of the financial equivalent, including reasonable costs for establishing a replacement position.

21. How is delivery made?

For delivery, all participants will establish an unallocated gold bullion account at a London Precious Metal Clearing Ltd. bank. Standing settlement instructions will need to be provided to CME Clearing for each clearing position account. CME Clearing will open an account at one or more LPMCL banks to facilitate its role in the delivery process. CME Clearing will not become a bullion-clearing bank itself or manage vault facilities which hold precious metals in storage.

CME Clearing will remain in the delivery chain, for both gold and U.S. dollars. CME Clearing will create final gold and U.S. dollar payment messages on the day before the delivery day (preliminary instructions are sent out two days prior to delivery).

Note: 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.

22. Will CME Clearing make delivery of gold, even if dollars from buyer have not been received by seller?

CME Clearing guarantees the financial performance of all cleared contracts. While the timely supply of any commodity cannot be guaranteed, in the event that one of the parties defaults, CME Clearing will endeavor to fulfill that party's delivery obligations to the other party and in any event will guarantee the financial equivalent of the transaction. Gold and dollar payments are not paid directly between counterparties, but via CME Clearing, which substantially reduces the default risk.

23. Where can I find more information and service specifications?

For further information, please contact a Metals team member below or visit the CME Group website at [www.cmegroup.com/lgf](http://www.cmegroup.com/lgf).

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