

WEATHER PRODUCTS

# Weather Futures and Options Block Trading Step-by-Step Guide

Traded at CME, block trades of Weather products allow eligible parties to manage exposure by region to weather-related risk or access unique speculation opportunities related to temperatures, snowfall, frost and hurricanes. Executed apart from the public auction market, block trades help market participants secure a fair and reasonable single price for large transactions. This guide will take you through the entire transaction process, from contract specifications to CME Clearing.

**1. You must be an Eligible Contract Participant** in order to do block transactions and the requirements for this are detailed in Rule 526.B. of the CME Rulebook. Such eligible participants include Exchange members and member firms, broker/dealers, government entities, pension funds, commodity pools, corporations, investment companies, insurance companies, depository institutions and high net-worth individuals.

**2. You have to trade a minimum number of Weather futures and options contracts** to execute a block trade.

Below is a table with the various thresholds:

Weather Block Minimums		
Hours	Futures	Options
5:00 p.m. Central Time (CT) to 3:15 p.m. CT the following day. Last trading day is until 9:00 a.m. CT for the expiration contract.	20 contracts	20 contracts

Further, Rule 526 provides for the participation of Commodity Trading Advisors (CTAs) and registered investment advisors – with net assets under management of at least \$25 million – to conduct block transactions.

**3. You come to a clear agreement with your counterparty on a fair and reasonable price for the weather contract and the number of those contracts.**

(E.g., we at ABC Bank sell 20 Chicago HDD November 2009 Weather futures contracts at a price of 114 to Worldwide Investors). Block trades must be transacted at prices that are “fair and reasonable” in light of the size of the order, prices in related cash, futures and option markets and the circumstances of the participants. Further, the trade price must adhere to the minimum tick and price validation requirements of the market in question.

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4. Each counterparty to the trade should call their clearing firm to let them know they have engaged in a block trade and include all relevant details so that the trade will be able to clear quickly. It is also a good idea to give your clearing firm notice early on to avoid surprises if you plan to execute such a trade in the near future.

- The seller's clearing firm must report the trade to CME Clearing within 15 minutes after the counterparties have agreed to the details of the trade
- The phone number for reporting block trades is [312 648 3935](tel:3126483935)

5. When the seller's clearing firm reaches the CME Clearing representative, they must provide the following information:

- The name of the seller's clearing firm's representative and his/her phone number at the clearing firm
- Time of the trade (e.g., within 15 minutes of the agreement between counterparties)
- The number of contracts (remember the minimum thresholds!)
- The name of the contract (e.g., it is best if you give the contract codes including month and year – Chicago HDD November 2009 Weather futures H2X5) Visit [www.cmegroup.com/weather](http://www.cmegroup.com/weather) for all weather codes.
- The price of the contract for futures or the premium, strike price and whether it is a call or put if it is an option (e.g., 114 for a Weather futures contract or 5 ticks for the 114 November 2009 Weather HDD call)
- The name of the buyer's clearing firm (this may be the same as the seller's clearing firm)

For more information regarding block trading rules or eligibility to transact Weather block trades, please visit [www.cmegroup.com/weather](http://www.cmegroup.com/weather).

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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.

All references to options refer to options on futures.

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