



Weather Futures and Options Settlement Guidelines

Weather Futures and options will be settled at 15:15 CST, daily, unless an early close occurs on Globex.

All relevant information will be considered in the settlement calculation, including but not limited to: GLOBEX bid/ask information, GLOBEX Trade information, Block Trade information, Clearing 360 trade information, and market information from third party sources.

CME reserves the right to deviate from these guidelines if they will lead to a settlement price which compromises the integrity of the market or would otherwise be inaccurate, impartial, or unfair to all or any market participants.

Monthly Futures

Approximately 3:00 p.m. - 3:10 p.m. CST, a snapshot of GLOBEX market data will be taken.

If a trade exists in an instrument, this will be the baseline for the settlement. If a GLOBEX trade and Block trade both occurred for an instrument, the more recent of the two will be the baseline.

If the baseline falls outside of the posted GLOBEX market, the settlement will be adjusted to either the bid or the offer, depending upon which side of the market the trade falls. Third party information will also be considered; if there is a better bid or offer posted on third party bulletins, for example, that is more recent than the trade and falls between the GLOBEX bid or ask, the settlement price may be adjusted to respect this bid or offer.

In no case will third party information adjust the settlement price to a level outside of a posted GLOBEX market.

Bids and offers smaller than 50 contracts (from any source) may be discarded for the purposes of settlement calculation, and the next best bid or offer that meets that minimum may be used.

In the absence of trade information, the settlement will be the mid-market price of the posted GLOBEX market.

In the absence of trade and market information, the settlement will revert to the previous day's settlement. If the contract is "in period", the settlement may be adjusted to the actual observed heating or cooling degree days to date plus the ten year average of HDD's or CDD's for the remainder of the period.

Monthly contracts with no trade information may be adjusted to reflect price discovery in the strips of which they are a component.

Options trades may be considered for the purposes of futures settlement in the absence of futures trades.

Seasonal or Strip Futures

Seasonal or Strip futures will be settled according to the same procedures detailed above for monthly futures, with a few notable exceptions:

In the absence of trade data, the seasonal or strip settlement will be the sum of the component month settlements. If this falls outside of a posted GLOBEX bid or offer, the strip settlement will be adjusted to that bid or offer and the appropriate component months will also be adjusted to reflect the change.

In the case of “in period” strips with expired components, the final settlement price of the expired component will be used in the sum-of-months calculation; components that settled with a decimal component will be rounded to the nearest integer and “halves” will be rounded up.

Options

The Jewson model for valuing options will be used to establish settlement prices for the options. Trades with caps will be settled at their “uncapped” prices, preserving the differential between strikes.

When a trade occurs in a contract that is “out of period”, the appropriate underlying futures settlement and the trade price will be used to determine the implied standard deviation for the trade. This standard deviation will be used to establish all option settlements for this city and expiration going forward until either another option trade occurs and implies a new standard deviation, or the contract period begins.

If no underlying futures settlement is available, the 10 year historical average contract value will be used as the underlying settlement and for the purposes of implied standard deviation calculation.

Once a contract is “in period”, whether a monthly option or a seasonal or strip option, the standard deviation will begin to decay. This decay function will form a ratio between the historical standard deviation on the date of the trade, and the historical standard deviation for the remainder of the period on the date the function is run. This ratio will then be multiplied with the implied standard deviation of the trade, and the result will be used to determine the settlement prices for all options in that city and expiration. This decay function will be run as frequently as twice weekly for monthly options that are in period, on Mondays and Wednesdays; for seasonal and strip options it will be run once every two weeks initially with increasing frequency until there is only a month left. CME will reserve the right to suspend activation of this decay function when implementing it would motivate a settlement price that is outside of an observed bid or offer.

If multiple option trades occur in a given city and expiration, a linear programming algorithm may be used to determine the appropriate standard deviation and underlying futures settlement that will settle both trades at their respective prices.