

# CBOT Fertilizer Swaps

## Frequently Asked Questions



October 2012

### 1. On which fertilizer markets will CBOT fertilizer swaps be listed?

CME Group will initially offer four fertilizer swaps contracts, listed on CBOT:

- Urea (Granular) FOB US Gulf Coast swaps
- Urea (Prilled) FOB Yuzhny swaps
- Urea (Granular) FOB Egypt swaps
- UAN FOB NOLA swaps
- DAP FOB Tampa swaps
- DAP FOB NOLA swaps

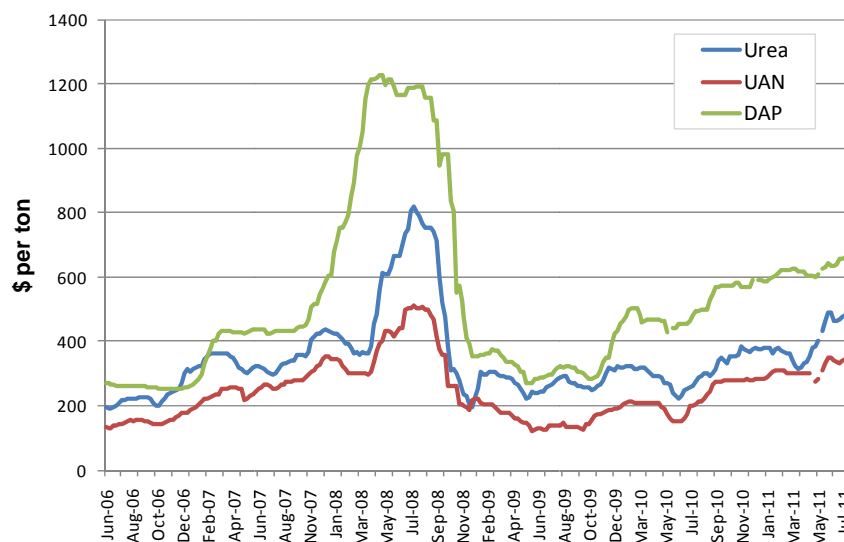
### 2. Why is CME Group clearing fertilizer derivatives contracts?

Wide price swings for fertilizer products in recent years have highlighted the need for instruments that provide risk management. Fertilizer swaps represent valuable tools for managing forward price volatility and reducing counterparty credit risk.

Central clearing is a core component of derivative markets, supporting both market efficiency and security. In our model, CME Clearing serves as the buyer to every seller and the seller to every buyer, thus assuming the credit risk for each market participant.

CME Clearing provides **industry-leading risk management**, an important part of the CME Group value proposition. CME Clearing backs every accepted transaction entered through CME ClearPort, our comprehensive set of flexible clearing services developed for the needs of over-the-counter (OTC) market participants.

Indicative Prices on Fertilizer Markets (Source: CME Group)



### 3. What are the contract specifications?

<b>Description</b>	Urea (Granular) FOB US Gulf Coast swaps Urea (Prilled) FOB Yuzhny swaps Urea (Granular) FOB Egypt swaps	UAN FOB NOLA swaps DAP FOB Tampa swaps DAP FOB NOLA swaps
<b>Symbols</b>	Urea US Gulf Coast: UFN Urea Yuzhny: UFZ Urea Egypt: UFG	UAN: UFU DAP FOB Tampa: DFT DAP FOB NOLA: DFL
<b>Contract Unit</b>	100 tons: Short tons – Urea US Gulf Coast, UAN, DAP NOLA	Metric tons - DAP Tampa, Urea Yuzhny, Urea Egypt
<b>Price Quotation</b>	US Dollars per ton	
<b>Min. Fluctuation</b>	\$0.25 (\$25 per contract)	
<b>Trading Hours (Central Time/CT)</b>	CME ClearPort: SUN-FRI 17:00-16:15 with a 45-minute break each day beginning at 16:15	
<b>Final Settlement</b>	Based on the arithmetic average of midpoint price assessments published weekly by both ICIS and Profercy during the contract month.	
<b>Termination of Trading</b>	Last Thursday of the contract month or if that day is not a business day, on the preceding business day	
<b>Contract Months</b>	12 consecutive calendar months	
<b>Exchange Rule</b>	These contracts are listed with and subject to the rules and regulations of CBOT.	

To view more detailed contract specifications, visit [www.cmegroup.com/fertilizer](http://www.cmegroup.com/fertilizer).

### 4. How are these fertilizer contracts settled at maturity?

There is no physical delivery for these contracts. The contracts are financially settled against price assessments compiled by ICIS and Profercy, two widely followed industry publications, enabling participants to separately manage price risk and physical supply concerns.

The final settlement price for each contract is based on price assessments published weekly by ICIS and Profercy during the contract month. For each set of weekly data published by ICIS and Profercy, comprising both a high and a low price from each source, the highest overall price (or in the case of multiple prices, one of the highest prices) and the lowest overall price (or in the case of multiple prices, one of the lowest prices) shall be removed from the data set. The arithmetic average of the remaining data points is calculated as the weekly average price.

The final settlement price is the arithmetic average of the weekly average prices determined from price assessments published during the contract month. For more information, see the respective rules for trading in each contract at [cmegroup.com/rulebook](http://cmegroup.com/rulebook) (click on CBOT Rulebook, Chapters 45-48, under Agriculture).

### 5. When do ICIS and Profercy report cash fertilizer prices?

Both ICIS and Profercy publish their weekly cash prices for fertilizer products on Thursdays.

## **6. Where do ICIS and Profercy get the data they use for their prices?**

Cash price quotations are based on information gathered from a wide cross-section of the market, comprising consumers, producers, traders and distributors. For more information, please refer to their websites at [www.icis.com](http://www.icis.com) and [www.profercy.com](http://www.profercy.com), respectively.

## **7. How can I utilize these new fertilizer swap contracts for off-exchange trading?**

Like cleared agricultural swaps offered for clearing by the exchange (such as CBOT Corn calendar swaps), CBOT fertilizer swaps may be executed bilaterally and are available for post-trade clearing through CME ClearPort. This entry into the market preserves the “one-to-one” customer and dealer price discovery relationships that are established in the OTC market, but also adds an important level of neutrality and credit support to the transaction. Accredited participants arrange with their clearing firms to clear transactions through CME ClearPort. All positions are held and margined through CME Clearing.

## **8. What is CME ClearPort?**

CME ClearPort is a comprehensive set of flexible clearing services designed for the OTC derivatives marketplace. Launched in 2002 to provide centralized clearing services and risk mitigation in the energy marketplace, today, CME ClearPort clears transactions across multiple asset classes.

With OTC clearing through CME ClearPort, registered users can continue to enjoy the freedom to negotiate their own prices privately and conduct business off exchange – while gaining increased credit support and efficiency.

## **9. What protections does CME Clearing provide?**

Inherent in our post-trade clearing service is the unparalleled protection from counterparty credit risk that can only be found on a regulated Exchange.

CME Clearing, the backbone of CME ClearPort is backed by approximately \$11 billion in total financial safeguards\*, delivers daily mark-to-market prices for all open contracts and collects or pays out margins on positions, so you always know where you stand. Our clearing services are globally available and bring together a wider audience of potential traders and counterparties than any other derivatives venue. That includes more than 10,000 registered users of CME ClearPort; users who now have the capability and access to transact CBOT fertilizer swaps through their CME ClearPort registration. After a simple registration process, you also can have the ability to execute a CBOT fertilizer swap transaction with any interested party among the companies and users registered on CME ClearPort.

## **10. Who is eligible to submit positions onto CME ClearPort?**

Access to CME ClearPort is 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** are 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.

### 10. How can OTC fertilizer swaps be submitted into CME ClearPort?

CME ClearPort trades may be entered in three easy ways:

- Through a broker using the CME ClearPort Web-based user interface
- Through a trader who calls the CME ClearPort facilitation desk at one of the following numbers:
  - 1.866.246.9639, or
  - 1.212.299.2457
- Through a third-party matching/confirmation platform connected to the CME ClearPort API

### 12. How do I register for CME ClearPort?

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

### 13. 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 clearing volume and open interest is published daily in the Daily Bulletin found on [www.cmegroup.com](http://www.cmegroup.com). Time and sales for individual trades are NOT reported by the Exchange.

### 14. Are there any position limits?

Yes. The position limits are as follows:

**UAN FOB Nola Swaps:** *Spot Month* (in effect as of the open of trading on the last three trading days of the expiring contracts): 200 contracts; *All other months:* 1,000 contracts [Are they all months combined or any one month – accountability or hard limits?]

**Urea (Granular) FOB US Gulf Coast Swaps, Urea (Prilled) FOB Yuzhny, Urea (Granular) FOB Egypt, DAP FOB Tampa Swaps, DAP FOB NOLA Swaps:** *Spot Month:* 250 contracts; *All other months:* 1,000 contracts. [Same Q as above]

More information can be found at [www.cmegroup.com/fertilizer](http://www.cmegroup.com/fertilizer).

### 15. Are there any reporting requirements?

Yes, clearing member firms are required to provide CME Clearing with information on all customers and house accounts that hold positions of 25 contracts or more for any delivery date.

## 16. What is the cost for this clearing service?

CME Clearing fees can be found at [www.cmegroup.com/fees](http://www.cmegroup.com/fees). While non-cleared **bilateral** transactions may not require an initial margin, they generally have implicit, hidden risk-management costs; for example, the costs of maintaining multiple bilateral credit relationships, and completing ISDA documentation. With CME ClearPort, the cost of margin is offset by reducing expenses related to items such as credit assessments and having to manage the flow of funds among counterparties.

## 17. What are the margin requirements for these contracts?

We offer competitive margin requirements vs. other cleared OTC offerings on fertilizer products. For the most up-to-date information, please visit the CME Group web site at [www.cmegroup.com/margins](http://www.cmegroup.com/margins).

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**For more information, visit [www.cmegroup.com/fertilizer](http://www.cmegroup.com/fertilizer).**

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Swaps trading is not suitable for all investors, involves the risk of loss and should only be undertaken by investors who are ECPs within the meaning of section 1(a)12 of the Commodity Exchange Act. Swaps 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 swaps 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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