Precious Metals Spot Spread Webinar

6 December

CME Group

Agenda

- Why does CME Group offer spot spread?
- What are the benefits?
- How can you start trading spot spread?
- How much does it cost to trade?
- How does the delivery process work?
- Q&A from live webinar

Why does CME Group offer spot spread?

- London hosts the largest liquidity pool in the world for OTC bullion trading whilst COMEX gold and silver futures are the primary choices for price risk management.

- Provide direct link between the London market and the COMEX futures markets.

- Enable on-screen execution between the two markets.

- Improve the efficiency and transparency of the spread

What are the benefits?

- Provide efficient mechanism to execute spread trades between the London and New York markets.

- CME Globex - on screen traded market, easily accessible and provide real time price transparency.

- CME ClearPort – can be used to enter privately negotiated trade for submission to clearing.

- CME Clearing – Provide security and financial safeguards.

- Daily settlement

How can you start trading spot spread?

- Customers will need to confirm with their FCMs that they will have access to the new contracts.

- Delivery of metal is made to and from London based unallocated gold/silver accounts – customers should ensure they have an account that can be used for this purpose.

- The new contracts will be made available in CME’s test environments from 19 December.

How much does it cost to trade?

- CME’s Trading and Clearing Fees have been set to be transparent. Standard execution fees for London Spot Gold/Silver Futures are **$0.25** per lot for COMEX members and **$0.75** for non-members. Delivery fees are **$1** per lot taken to delivery.

- We can’t easily compare our fees to charges from an IDB or other arrangements in the OTC market, as these charges will be unique to each customer.

How does the delivery process work?

- Delivery occurs by the transfer of unallocated metal between London bank accounts.
- At the end of the Contract Day, holders of open positions must confirm their delivery arrangements with the Clearing House and their Clearing Member.
- On the Delivery Day, holders of short positions must deliver metal to the account of the Clearing House, and will receive payment thereafter.
- Holders of long positions must pay the dollar amount to the Clearing House on the delivery day, and will subsequently receive delivery of metal from the Clearing House.

Q&A from Live Webinar

- **Is there a minimum EFP size?**

For the Spot Spread the tick size is $0.01/oz for Gold and $0.001/oz for Silver. There is no minimum transaction size. The contract size is 100oz per lot for gold and 5,000oz per lot for silver.

- **Will there be liquidity in the spot contract or just the spread?**

We are first and foremost promoting the Spot Spread however clients will be able to trade the London Spot Gold or Silver Futures if and so required.

- **How will the settlement price be determined?**

Settlement time for the Spot Spread is the same as the respective COMEX Futures, i.e. Gold is 13.30 EST and Silver is 13.25 EST. The settlement will follow a waterfall methodology which will take into account of the trade price, ask and bid prices, etc. Detailed settlement procedure will be published on the Rulebook near the launch date.

- **Will the standard strategies be available such as icebergs and stop losses? And are there any Safeguards in place in the event of out of the ordinary market moves?**

The Spot Spread and the London Spot Gold and Spot Silver Futures will all be available for trading on CME Globex, which supports a variety of complex order types and functionality. CME Globex also incorporates a range of market protections which are designed to minimize the impact of excessive price moves. Details can be found at http://www.cmegroup.com/globex/ CME Clearing also provides safeguards to the holders of open positions.

Q&A from Live Webinar

- **Will these positions be included in the COTR? If so, will they be listed separately?**

As futures contracts, positions in the London Gold Spot and Silver Spot Futures over a certain size will be reportable to the CFTC on a weekly basis. The contract may be included in the CFTC's Commitment of Traders Report where a sufficient number of individual positions are reported to the CFTC.

- **Is delivery guaranteed? If not and I am long and do not receive the metal, what is the compensation for the fail?**

Yes, delivery is guaranteed. The guarantee applies to performance with respect to delivery obligations. CME Clearing remains in the delivery chain and will guarantee financial performance at delivery.

- **Will the spot futures contract stand alone, so that the CME can generate a synthetic EFP market? Or is it purely an EFP market, so that if no EFP limits have been placed then there is no market?**

The Spot Spread will be traded directly on the Central Limited Order Book, but there will also be an independent Spot Future Contract available for trading (GSP & SSP), and you could trade these against the prevailing COMEX Future as a synthetic spread.

- **How will the new products be regulated?**

The two new contracts, and the spot spreads, are listed as futures on COMEX in New York. They are regulated in the US under the Commodity Exchange Act and the CFTC's rules. There will no direct impact of European regulation – for example MIFID – on the new contracts. The products are regulated as futures contracts, in the same as the COMEX GC gold futures contract or COMEX SI silver futures contract, and traders and other market participants will need to comply with the same regulation when dealing in the new contracts as they do when dealing in GC and SI.

Only trading on a European exchange will be caught by MiFID II - MiFID II does not apply to U.S. trading venues or clearinghouses.

CME Group

For more information visit cmegroup.com/spotspread

Contacts for Precious Metals Spot Spreads

Jack Allen (Metals BLM, London) Jack.Allen@cmegroup.com

Richard Stevens (Research & Product Development, London) Richard.Stevens@cmegroup.com

Yang Lu (Metals BLM, London) Yang.Lu@cmegroup.com

Laura Buschnyj (Clearing House, Chicago) Laura.Buschnyj@cmegroup.com

Christian Bonato (Sales, London) Christian.Bonato@cmegroup.com

Nils Mordt (Sales, London) Nils.Mordt@cmegroup.com

Disclaimer

CME Group, The Globe Logo, CME, Chicago Mercantile Exchange, CME Direct and Globex are registered trademarks of Chicago Mercantile Exchange Inc. ClearPort, New York Mercantile Exchange and NYMEX are registered trademarks of New York Mercantile Exchange, Inc. COMEX is a registered trademark of Commodity Exchange, Inc. The information has been compiled by CME Group for general purposes only. Although every attempt has been made to ensure the accuracy of the information within this brochure, CME Group assumes no responsibility for any errors or omissions.

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 examples are hypothetical situations, used for explanation purposes only, and should not be considered investment advice or the results of actual market experience. All matters pertaining to rules and specifications herein are made subject to and are superseded by official CME, CBOT and NYMEX rules. Current rules should be consulted in all cases.

CME Group