

EU Wheat Futures (WEU): Exchange for Physical (EFP) Reference Guide



An EFP (also known as an “Against Actual” or “AA”) is a privately negotiated trade transacted outside of the competitive marketplace, but submitted for clearing through CME Clearing (clearing services provided by CME Inc.). It involves two parties simultaneously exchanging an Exchange-listed futures position for a corresponding bona fide physical (cash) position. In such a transaction the buyer (seller) of the futures transaction is the seller (buyer) of a corresponding amount of the cash commodity at a price mutually agreed upon. The physical side of an EFP must stand on its own as an independent transaction without being dependent on the execution of any other transaction. The Exchange contract and the corresponding related physical position must be executed for accounts with the same beneficial ownership.

Benefits of EFP transactions:

- Added convenience of private negotiation
- Reduce or eliminate basis exposure
- Manage risk with CME Clearing, one of the world’s leading central counterparty clearing providers
- Straightforward trading method for parties with complementary objectives

What You Need to Know about an EFP

Minimum EFP Threshold	No minimum size
Hours	At all times, including weekends
Physical/Cash Component of an EFP	The physical/cash component must involve the product underlying the exchange futures contract or a by-product or a related product that is reasonably equivalent in terms of its physical and economic properties and has a reasonable degree of price correlation with the exchange futures contract. The quantity of the exchange contract(s) must be approximately equivalent to the quantity of the cash commodity component. Appropriate hedge ratios between the Exchange and related position components of the EFP may be used to establish equivalency.
Eligible Parties	There are no specific eligibility requirements for participants in an EFP transaction. However, since EFP transactions include a bona fide cash market transaction, EFPs conducted by non-commercial participants may be subject to additional scrutiny to determine the bona fide nature of the cash market transaction. Typically, there may be only two parties involved in an EFP transaction. One party to the EFP must be the buyer of the Exchange contract and the seller of (or the holder of the short market exposure associated with) the related position; the other party to the EFP must be the seller of the Exchange contract and the buyer of (or the holder of the long market exposure associated with) the related position.
Pricing an EFP	EFPs must be executed at commercially reasonable prices as are mutually agreed upon by the parties to the transaction Pricing must be in minimum tick increments EFPs may not be priced to facilitate the transfer of funds between parties for any purpose other than as the consequence of legitimate commercial activity.

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What You Need to Know about an EFP - Continued

Documentation Requirements	<p>The parties to an EFP are required to prepare and maintain all documents in connection with both the futures and related cash components of the EFP.</p> <p>A third party that facilitates an EFP must maintain all records corresponding to their facilitation of the EFP transaction.</p> <p>Exchange requests for EFP documentation are commonly directed to the Clearing Member(s) that cleared the transaction. Upon request, any participant in an EFP transaction must provide the Exchange (CBOT) with such material, information and documents, which evidence title to, or the contract(s) to buy or sell, the cash commodity (or the by-product or related product) involved in the transaction. Each EFP requires a bona fide transfer of ownership of the cash commodity between the parties.</p>
Accounts	<p>Both parties to the trade must have an account at a Clearing Member. The accounts involved in the execution of an EFP transaction must be:</p> <ol style="list-style-type: none">1. Independently controlled with different beneficial ownership; or2. Independently controlled accounts of separate legal entities with the same beneficial ownership; or3. Independently controlled accounts within the same legal entity, provided that the account controllers operate in separate business units. <p>“Independently controlled” means that the parties have separate accounts with separate operations (whose positions, even when exactly opposite, cannot be offset except by trading on the electronic platform) and that there is independent control of decision making with respect to transactions for such accounts.</p>
EFP Submission Methods	<p>An EFP may be submitted via:</p> <p>CME Direct/CME ClearPort; if submitting via CME ClearPort, the transaction will be matched and sent directly to clearing from ClearPort provided the transaction does not exceed the pre-established credit limits of the counterparties to the EFP. Provided the 2 counterparties have a ClearPort account they may contact Global Command Center (“GCC”), who, in turn, will enter the EFP for the respective ClearPort accounts. GCC may be contacted at: +44 20 7623 4747 (Europe), +1 800 438 8616 (US), +65 6532 5010 (Asia)</p> <p>- Front End Clearing (FEC); if submitting via FEC, then subsequent to negotiation of EFP, details must be provided to relevant FCM for reporting to the Exchange.</p> <p>The date and time of execution must be accurately submitted for each EFP transaction.</p>
CME Clearing Submission Times	<p>An EFP has to be submitted to CME Clearing within the following times:</p> <ul style="list-style-type: none">- when entered via CME Direct/CME ClearPort, an EFP must be submitted within one hour after relevant terms have been determined when ClearPort is open; when ClearPort is unavailable (16:15 – 17:00 Central Time) it has to be submitted within one hour of the time when ClearPort next becomes available- when entered via FEC, an EFP must be submitted to CME Clearing within one hour after relevant terms have been determined if executed between 6:00 to 18:00 US Central time (Chicago time) and not later than 7:00 US Central Time the next day if an EFP has been executed between 18:00 and 6:00 Central time.

For more information about EFPs, visit cmegroup.com/efrp.

For the latest rules and guidelines please visit cmegroup.com/mran and reference the current Market Regulation Advisory Notice titled “Exchange for Related Positions”.

For questions, email euwheat@cmegroup.com.

Matters discussed herein are pending and subject to regulatory and additional internal review.

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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 examples in this brochure 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.

Chicago Mercantile Exchange Inc. is a Recognised central counterparty (CCP) under EMIR. The Board of Trade of the City of Chicago (CBOT) is a Recognised Overseas Investment Exchanges (ROIE) recognised by the Financial Conduct Authority.

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