Clearing Advisory Notice

DATE: March 31, 2022

TO: Clearing Member Firms

FROM: CME Clearing

ADVISORY #: 22-128

SUBJECT: **Clearing Processing for CME Event Contracts**

Further to the Press Release dated March 14, 2022 (and pending all relevant CFTC regulatory review periods), Chicago Mercantile Exchange Inc. ("CME"), The Board of Trade of the City of Chicago, Inc. ("CBOT"), New York Mercantile Exchange, Inc. ("NYMEX") and Commodity Exchange, Inc. ("COMEX") (collectively the "Exchanges") are providing preliminary information on the upcoming listing of Event Contract Options on certain CME Group futures on equity, foreign exchange (FX), energy and metals contracts as described in New Contract Advisory 22-127.

Although no launch date has been announced, full details about the initial set of ten contracts have been published, and the contracts will be fully live on CME's "New Release" test environment, both for Globex and clearing, this coming Monday, April 4, 2022. Firms wishing to test processing for these new contracts in the New Release test environment may do so at any time beginning this Monday.

For more information please see:

- Special Executive Report SER-8968
- New Contract Advisory 22-127
- Globex Notices published March 31, 2022
- Globex Client Impact Document
- News Release published March 14, 2022
- CME's website

CME event-based contracts are simple daily-expiring equity-style cash-settled options on a futures contract. Event contracts cash-settle at expiration to a fixed value if in-the-money by any amount. Event contracts will be listed on existing CME Group DCM's – CME, CBOT, NYMEX and COMEX.

All expirations will be same-day; the options will live for precisely one business day. For example, on business day July 20, 2022, only the July 20 options will be eligible to trade. Their first day of trading, last day of trading, and expiration date will all be July 20, and their period code will be **20220720**.

The product code will consist of **EC** plus the futures symbol. For example, **SI** is the code for the COMEX silver future, so the corresponding event contract will be **ECSI**.

The options will open for the new day at 5:00 pm CT, Monday through Thursday, and then again at 5:00 pm CT on Sunday. The options will close for the day at the start of the daily settlement period for the underlying future.

In the clearing system, the actual underlying of the **ECSI** option will be a synthetic, non-tradeable future with the same **ECSI** product code. The underlying of the **20220720 ECSI** option will be the **202209 ECSI** future. The daily settlement price for that September **ECSI** future, used for determining whether the event contract has settled in-the-money or not, will be cloned from the actual September silver future.

The fixed payout amount per contract will be **20 USD**.

Option trade prices are quoted from **0.25** to **20**, with a minimum price fluctuation of **0.25**. For example, prices might be 14.0, 14.25, 14.50, etc. Option prices will be formatted in the positional-format SPAN and settlement price files with two implied decimal places.

The contract value factor (CVF) will be **1.0** (*ie*, trade price = premium amount)

The trade premium is calculated normally by taking the product of the trade price, the quantity and the CVF, and of course making this result negative for a purchase. These are normal equity-style options, and premium is paid or collected in the settlement cycle(s) on the day the trade clears.

The daily settlement price of that ECSI synthetic future will be assigned as the same value as that for the actual SI future. The final settlement price of the options will then be determined as either **zero** or **20**, depending on whether the contract settled in or out of the money.

If the underlying settlement price precisely matches the strike price, the convention will be that the put is in the money, and the call will be out of the money. (ATM=ITM for puts and ATM=OTM for calls)

If the option has settled in-the-money, the final cash-settlement amount is determined simply as the ending position quantity times the fixed payout amount per contract, and of course made negative (a pay) for a short position and positive (a collect) for a long position.

This can be achieved in bookkeeping systems simply by offsetting the final position at the final settlement price. For example, you bought an option for $7, and pay the $7 premium, and it finishes in-the-money. You offset the long by selling the option for its final settlement price of $20, causing you to receive the $20 fixed payout and ending flat.

In the end of day clearing cycle, there will be no margins for the event contracts, as the determination of the final settlement amounts and the concomitant reduction of the position quantities to zero will have been done prior to the calculation of margins. Firms should ensure that they do the same.

There are no changes to trade messages, option premium calculations, expiration processing, the format of the FIXML trade register, margin processing or the SPAN file.

In the Reference Data API, a new **Product Subtype** field will be provided to indicate that these are event contracts, and if so the **Payout Amount** will also be provided denominated in the contract's settlement currency. There will also be a new link type of **ReferenceProduct** pointing from the synthetic futures product to the true underlying futures product. For example, this will tell you that the settlement price of the normal **COMEX SI** silver futures product is being cloned as the settlement price of the **COMEX ECSI** synthetic future. Full details are provided in the Client Impact Document referenced above.

On the FIXML trade register for a cash-settled option, the cash settlement amount for a position is provided in an **Amt** element with type **CASH**, regardless of whether that amount is for an event contract. For example, if the payout amount per contract was $20 and you were short 40 of an event contract which is in the money at expiration, you'd see:

<Amt Typ="CASH" Amt="-800.00" Ccy="USD" Rsn="0"/>

In the FIXML Trade Register File, in the record for the option position, the underlying price used to determine whether the option is in or out of the money at expiration is provided in the **UndSetPx** attribute of the **PosUnd** (position underlying) element. For example:

<PosUnd UndSetPx="123.40" UndSetPxTyp="1">

On the Trade Register (**POS591**) Report, for each option position, there is an **Option Adjustment** section which shows the position quantity exercised and/or assigned. For cash-settled options, there will also be either or both of two lines – **OPTION EXERCISE CASH** and **OPTION ASSIGNMENT CASH** – showing the cash movement(s). On financial settlement reports (for example the **CST590** Recap Ledger report), these cash movements are included in the **Variation** values – not the **Option Premium** values.

Please address any risk-specific feedback or questions to clearing.riskmanagement@cmegroup.com or 312-648-3888.

For more information please contact CME Clearing at ccs@cmegroup.com or via phone at Chicago (312) 207 2525 | London (44) 203 379 3198 | Singapore (65) 6593 5591.