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## Advisory Notice

Clearing House

TO: Clearing Member Firms  
Attention: Operations Managers & Delivery Personnel

FROM: Clearing House Department

DATE: January 24, 2006

ADVISORY #: 06-20

SUBJECT: **Pork Belly Delivery Procedures**

### **ASSIGNMENTS**

Delivery intentions are to be submitted via the Deliveries system by 2:00 p.m. (CST). Deliveries are assigned to the oldest long positions at 3:00p.m (CST). Member firms are reminded of their obligation under Rule 807 to maintain accurate inventories of open purchase dates using the on-line web based delivery application. Long inventories that have not been assigned may be adjusted until 8:00p.m.

After the assignment process is completed, each delivering and receiving firm will receive a detailed report print-out: **DLR130PB PORK BELLY FUTURES DELIVERY ASSIGNMENTS** of their deliveries. The receiving firm will also receive an "Ownership/Delivery Notice" for each lot assigned. These are distributed to firms via Document Direct.

The following is an explanation of each field on the delivery assignment print-out (**Exhibit A**).

- (1) Delivery date - one business day following intent date.
- (2) Settlement price per hundred-weight on tender date.
- (3) Date through which seller must pay storage charges.  
(i.e. 5:00 p.m. second business day after delivery date)
- (4) CME-approved warehouse code and name where bellies are stored.
- (5) Warehouse lot number as reported on USDA grading certificate.
- (6) Warehouse weight as reported on USDA grading certificate.
- (7) Weight range (12-14, 14-16, 16-18).

(8) Date lot entered warehouse.

(9) Sum of allowances for defects and 12-14 weight range.

(10) Contract value = net weight x settlement price - discounts. The net weight is certified weight minus 1/4 of 1% for shrinkage. As an example:

$$\begin{array}{r} 40,515(\text{certified weight}) \\ \times .0025(1/4 \text{ of } 1\%) \\ \hline 101.2875(\text{round to } 102) \end{array}$$

$$\begin{array}{r} 40,515(\text{certified weight}) \\ - 102(\text{shrinkage}) \\ \hline 40,413(\text{net weight}) \end{array}$$

$$\begin{array}{r} .8005(\text{settlement price}) \\ - .0150(\text{sum of allowances \#9}) \\ \hline .7855 \end{array}$$

$$\begin{array}{r} 40,413(\text{net weight}) \\ \times .7855 (\text{settlement price} - \text{discount}) \\ \hline \$31,744.41(\text{contract value}) \end{array}$$

(11) Location allowance = Par for all warehouse locations

(12) Storage charges are calculated as follows:

#### EXAMPLE

Delivery date	2/17/06
Warehouse	Millard
Storage date	11/21/05
Certified wt.	40,515
Discount allowance	\$1.50/cwt
Warehouse storage rate	\$1.10/cwt/month

- a. Calculate storage per day. Storage is always calculated on a basis of a 30-day month rounded up to the nearest nickel.

$$\begin{array}{r} 40,515 (\text{certified weight}) \\ \times .0110 \text{ /lb. storage rate} \\ \hline \$445.67 \text{ /month} \end{array}$$

\$445.67 divided by 30= \$14.855; rounded up to nearest nickel = \$14.90/day (Remember to always round up to the nearest nickel.)

- b. Calculate how many days the buyer owes the seller for storage charges.  
The seller must assume charges through the second business day after the delivery date. In our example, since delivery occurred on 2/17/06, the seller must assume storage charges through 2/22/06, and the buyer begins paying storage on 2/23/06.
- c. Remember that storage charges are paid one month in advance by the firm holding the bellies on storage expiration. Storage expiration always occurs each month on the same day as the bellies went into storage.

In our example, lot #12345 went into storage on 11/21/05. Consequently, a month's storage will have to be prepaid by whoever is holding the lot on the 21<sup>st</sup> of subsequent months (e.g., 12/21/05, 1/21/06, etc.).

FEBRUARY - '06							MARCH - '06						
S	M	T	W	T	F	S	S	M	T	W	T	F	S
			01	02	03	04				01	02	03	04
05	06	07	08	09	10	11	05	06	07	08	09	10	11
12	13	14	15	16	17	18	12	13	14	15	16	17	18
19	<b>20</b>	21	22	23	24	25	19	20	21	22	23	24	25
26	27	28					26	27	28	29	30	31	

In our example, seller XYZ delivered to buyer ABC on 2/17/06. The seller must allow two business days before the buyer is responsible for storage. (This means that if delivery is on a Thursday or Friday or a holiday, the seller's responsibility for storage includes the following weekend.) The seller in our case is responsible for storage through 2/22/06, because of the holiday on Monday, February 20<sup>th</sup>, President's Day. On February 21<sup>st</sup>, seller XYZ prepaid a month's storage to the warehouse for the period through the following March 21<sup>st</sup>. Since he is only responsible for storage through February 22<sup>nd</sup>, the buyer ABC owes the seller a refund on the prepaid storage for the period from February 23<sup>rd</sup> through March 20<sup>th</sup> is 28 days. Please note that storage charges are always figured on the basis of a 30 day month; if a month has 31 days, the last day is not counted for storage calculations; for February, which has 28 days, 2 days are added. For example, for purposes of storage calculation, the period from February 24 to March 2 is counted as 9 days; the period from July 25 to August 2 is counted as 8 days.

- d. The delivery assignment print-out indicates the storage charges the buyer will return to the seller. There are 28 days from February 23<sup>rd</sup> to March 20<sup>th</sup>. The buyer will refund 28 days storage to the seller, \$417.20, for the prepaid storage the seller paid on February 21<sup>st</sup> (28 x \$14.90 = \$417.20).

- (13) "Collect Amount" or "Pay Amount" = contract value less location allowance plus storage refund:

\$31,744.41	(contract value)
+ 417.20	(storage charge)
\$32,161.61	(collect or pay amount)

## **PAYMENTS**

According to CME Rule 713.E "Payment", the buyer receiving a delivery notice should present payment to the seller between the hours of 11:00 a.m. on the day of tender and 12:00 noon the following business day.

To clarify delivery instructions for the frozen pork belly futures contract, buyers receiving notification of delivery on the tender day will have until 12:00 noon the next business day to remit payment to the seller.

The seller must provide the buyer with the required documents per Rule 15103.D at the time of payment. In addition, at that time the seller must forward a completed warehouse transfer form to the appropriate warehouse(s) (**Exhibit B**) to ensure that the warehouse(s) is aware of the change of ownership and will send the bill for storage charges to the correct owner.

**Firms are reminded to check the accuracy of all the information on the print- out and report any discrepancies to the Clearing House immediately.**

### Insurance

The Approved Cold Storage Warehouses carry Warehouseman's Legal Liability Insurance on products stored within them.

Products stored at the approved warehouses are not automatically covered by any other insurance. If you or your customer wants additional coverage, it must be purchased by the owner either through the owner or a private carrier. The firms that have blanket insurance coverage should add pork bellies to their policy.

If you have any questions, please contact Deliveries at (312) 930-3172.