

Advisory Notice

Clearing House

TO: All Firm Personnel
FROM: Clearing House Department
ADVISORY #: NP06-38
DATE: November 28, 2006
SUBJECT: **Clearing and Bookkeeping Processing for CBOT® OTC Ethanol Swap Contracts**

On Monday, December 4, 2006, CBOT will begin offering two new contracts which will trade over-the-counter (OTC), and be cleared by CME Clearing as part of Clearing 360™. These contracts are **Previous-Month Ethanol Calendar Swap** and **Forward-Month Ethanol Calendar Swap**.

This advisory details the special aspects of processing for these contracts in clearing and bookkeeping systems. For more information about the contracts themselves, please see:

- CBOT's News Release at http://www.cbots.com/cbots/pub/cont_detail/0,3206,1109+42806,00.html
- CME Clearing House New Product Advisory 06-37, for the Previous-Month Calendar Swap contract <http://www.cme.com/clearing/clr/npadv/20809.html>
- CME Clearing House New Product Advisory 06-36, for the Forward-Month Calendar Swap contract <http://www.cme.com/clearing/clr/npadv/20808.html>

The contracts are OTC contracts, and are **not** futures. Because firm bookkeeping systems do not generally support these as OTC contracts, however, they will be treated in the clearing system, and in bookkeeping systems, as if they were futures, with a product type of **FUT**. In effect, they are "book-instrument futures" -- contracts that are treated in bookkeeping as futures even though in actuality they aren't. In this regard, the CBOT contracts will be analogous to the "book-instrument options and futures" used for CME Auction Markets.

Clearing firms will enter transactions in these OTC contracts using the new "Privately-Negotiated Transaction Strip Entry" screen in Front-End Clearing. Using this screen, you can enter either a single contract, or, if you choose, an entire strip of contracts in one operation, specifying the starting contract month, the ending contract month, the price and quantity, and then modifying the specific values for price and quantity for each month.

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Using the new screen, one side enters, and the other side claims. Once the transaction is claimed, the firms on each side will receive TREX messages for each individual contract to load to books. These will appear as any TREX message for a privately-negotiated trade, except that the trade type will be a new value **O** (the letter), meaning "generic privately-negotiated trade."

In other words, this new screen can be used for CBOT OTC ethanol contracts to enter generic privately-negotiated trades, or for CME Eurodollars to enter SUB (substitution) transactions or EBF (exchange-basis-facility) transactions. The only difference is the transaction type **O** for generic privately-negotiated trades, **F** for SUB's, or **A** for EBF's.

Once entered and accepted, the resulting transactions behave in clearing and books much like actual futures. They can be given up, or average-priced. They will be present in the settlement price file for CBOT, and in the combined CBOT-CME SPAN file. They will be marked-to-market daily and will appear on the Trade Register report and in the FIXML Trade Register file normally.

Because these products are OTC and therefore not subject to segregation requirements applicable to real futures, all transactions must be identified with the "House" origin code.

For more information please contact CBOT at 312-341-7955, or CME Clearing at 312-207-2525.