

Advisory Notice

Clearing House

09-309

TO: Clearing Firms
Service Bureaus / System Solutions providers

FROM: CME Clearing

SUBJECT: **Clearing and Bookkeeping Processing for Cleared OTC London Gold Forwards**

DATE: Friday, August 21, 2009

REVISION #1: **UPDATED LAUNCH DATE**

Beginning Monday September 21, privately negotiated OTC transactions in London gold forwards may be submitted to CME Clearing through CME Clearport. This will be limited to house (proprietary) business at launch, with customer business to follow within ninety days. Note that this is one week following the integration of trade processing for COMEX products into the CME Clearing applications.

The attached advisory provides complete details about clearing and bookkeeping processing for these innovative new contracts. In brief:

- These will be COMEX products, with a product code of **GB**, and a product type code of **FWD**, short for forwards.
- The contract date (“contract period code”) identifies the value date for delivery. For example, the **20091015** contract is for value on October 15, 2009. Transactions will be accepted for values going out ten years.
- Each contract represents 100 troy ounces of unallocated gold delivered via book-entry at a London bullion bank. At a later date the contract size may be reduced to one troy ounce.
- Contracts are forwards, not futures. Trades are held at original trade price, and at maturity are delivered at original trade price, except that all open trades for the same value date are netted together to yield a single delivery obligation. Every day, mark-to-market amounts are discounted to present value and then netted together, to yield a single value which is “collateralized” rather than banked. In other words, if a net loss to the firm, it increases the initial margin requirement, which may be met by any collateral type accepted by CME Clearing. If a net credit, it decreases the initial margin requirement.
- These are OTC transactions. Customer funds must be held in 30.7 Secured (not segregated) accounts.

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- Initial margin (performance bond) requirements are calculated in SPAN® normally. Subject to CFTC approval, we expect that clearing firms will be able to provide their customers with risk offsets between COMEX gold futures and options, and the new COMEX London gold forwards. These risk offsets will not be available when CME Clearing calculates initial margins for customer positions held by clearing firms, however: for clearing-level margins, 30.7 positions such as gold forwards and normal customer-segregated positions may not offset. For margins charged to clearing firms, these risk offsets will be available only for house (proprietary) positions.
- Standard FIXML trade confirmation messages and FIXML trade register files will be provided. In addition, spreadsheet-format trade and position files will be provided to market participants.
- The fee structure is tiered, with the rate increasing by time to maturity on the date the transaction is cleared. A special fee rate tier file will be published to make it easy for participants to determine the correct fee rate to apply to their trades.

You can find the complete notice at:

www.cmegroup.com/tools-information/lookups/advisories/clearing/files/Gold_Forward_Bookkeeping_V1_3.pdf

For more information please see www.cmegroup.com/lqf or call CME Clearing at 312-207-2525.