

## Advisory Notice

Clearing House

08-252

TO: Clearing Member Firms  
FROM: CME Clearing  
SUBJECT: **Integration of NYMEX into CME Clearing**  
DATE: October 9, 2008

This advisory presents an overview of the process and timeline by which NYMEX and COMEX products will be integrated into CME Clearing.

The integration will be accomplished in four phases:

- **Phase 1 – Monday, December 8, 2008: Back-end integration – clearing-level performance bond (margins), collateral management, financial settlement and banking**
- **Phase 2 – Friday, April 10, 2009: Combined customer-level performance bond processing**
- **Phase 3 – Monday, July 13, 2009: Front-end integration – trade and position processing – for COMEX products**
- **Phase 4 – Monday, August 3, 2009: Front-end integration – trade and position processing – for NYMEX products**

This plan provides important near-term financial benefits for joint clearing members with minimal disruption to existing clearing practices for NYMEX and COMEX products, while providing plenty of time for testing and implementation of the more significant changes associated with integration of trade and position processing.

### **Phase 1 – Monday, December 8, 2008: Back-end integration**

There will be no impact on this date to existing NYMEX trade and position processing systems and procedures. Firms will continue use existing NYMEX systems for trade management, for position processing and for physical delivery of metals and energy futures.

We will, however, merge performance bond (margin) calculations, collateral management, and financial settlement and banking.

**Integrated performance bond calculation:** clearing firm positions in all of the above-listed products will be merged together as appropriate for performance bond calculations. Reductions in performance bond requirements due to offsetting positions will be automatically recognized.

**Integrated collateral management:** clearing firms will use CME's Asset Management system to manage combined pools of collateral (by origin of course) to meet their combined performance bond requirements. This will provide significant capital and operational efficiencies to clearing firms.

**Integrated banking of settlement variation, option premium, and performance bond cash calls and releases:** variation and premium amounts will be netted together as appropriate. Similarly, there will be a single integrated call for more USD performance bond cash or release of excess USD cash. This will provide clearing firms with operational efficiencies and reduce firm banking transaction costs.

**Some additional points to note about back-end integration:**

**NYMEX supermargins:** NYMEX and COMEX products will be incorporated into CME Clearing's concentration margining program. This will replace NYMEX's existing supermargin processing.

**Temporarily, no banking of top-day variation at intraday:** currently for NYMEX and COMEX products, variation and premium amounts from current ("top") day trades are excluded from banking at the intraday settlement cycle. We will temporarily continue this practice, for a short period. (It will be phased out in the future, on a date to be announced.)

**Temporarily, no inclusion of top-day activity in intraday performance bond calculations:** currently for NYMEX and COMEX products, top-day trades are not included in the positions to be margined at the intraday settlement cycle. We will similarly temporarily continue this practice, and phase it out in the future.

**Issuing performance bond cash calls at end-of-day:** currently for NYMEX and COMEX, cash calls for collateral deficits are only issued at the intraday settlement cycle. Our intention is to eliminate this practice. Cash calls to cure any deficit will be issued at either or both the intraday and end-of-day settlement cycles. This is consistent with a combined performance bond calculation, and a combined pool of collateral to meet that combined requirement.

**Separate banking cycles for metal deliveries:** we will temporarily continue the separate 10am banking pay cycle and 2pm banking collect cycle for the invoice amounts for metal deliveries.

**Full-value energy delivery margins:** we will continue the current practices for full-value margining of positions in delivery for energy futures, with the ability for firms to post letters of credit targeted to meet these requirements and normal performance bond collateral used only to the extent necessary.

**Energy and metal delivery margin requirements:** delivery margin requirements will be incorporated into the normal SPAN requirement. This includes: metal delivery margin requirements, short full-value energy margin requirements, and long full-value energy margin requirements not met by specific delivery letters of credit.

**Phase 2 – Friday, April 10, 2009 - Combined customer-level performance bond processing**

In January, we will begin publication of a single, integrated CME Clearing SPAN file, with data for CME, CBOT, NYMEX, COMEX, DME (Dubai Mercantile Exchange), OneChicago and FXMarketSpace products. All appropriate risk offsets will be recognized between these products.

At that time, publication of the separate files which are currently available will continue: one for CME-CBOT-OneChicago-FXMS, one for NYMEX, and one for COMEX.

Once the new, combined file is available, firms may begin testing their bookkeeping systems with this new, combined file.

Firms which are ready, may begin using the new combined file for customer-level performance bond calculations as early as **Monday, January 12, 2009**.

The deadline for firms to cut over to the new combined file is **Friday, April 10, 2009**. After that date, the three existing files will no longer be available.

**Phase 3 – Monday, July 13, 2009: Front-end integration for COMEX products,** and

**Phase 4 – Monday, August 3, 2009: Front-end integration for NYMEX and DME products**

These phases will bring all front-end processing into CME Clearing's Front-End Clearing (FEC) and Position Management systems. To minimize risk, we're doing this in two parts, starting with the relatively smaller number of COMEX products.

## **Integration of NYMEX into CME Clearing**

08-252

October 9, 2008

Page 3 of 3

**Trade processing for CME Globex® trades:** this will be handled for NYMEX, COMEX and DME products exactly as it is today for CME and CBOT products. Firms will receive FIXML trade confirmation messages for these trades, and will be able to perform all standard FEC processing functions such as giveups and average-pricing.

**Trade processing for pit trades:** we will enhance FEC to allow floor trades for COMEX and NYMEX products to be handled in a similar manner as they are today on the COMEX trading floor, with single-sided trade entry by the selling broker or their clerk, and initial allocation of trades by those brokers or their clerks. Our goals in doing this are to minimize costs to clearing firms and disruption to existing New York floor practices.

**ClearPort Clearing transactions:** Clearport Clearing will continue to operate exactly as it does today. Clearport trades which have passed the RAV manager credit and limits checking process will be loaded into Front-End Clearing as cleared transactions, and will be processed there exactly like any other trade.

**Position processing:** all position processing will be handled by CME Clearing's Position Management system. Standard FIXML trade register datafiles will be produced for all CME Clearing products, and firms will be able to run a single integrated balancing process. Firms will similarly use the integrated system for position adjustments, option exercise and assignment processing, and PCS submissions.

**Deliveries processing:** new applications will be provided to replace the existing COMEX and NYMEX deliveries processing applications.

### **Testing and implementation**

In November, we will begin providing clearing firms with back-end clearing reports, so that firms may familiarize themselves with expected results once combined back-end processing is implemented. As described above, in December we will begin providing sample combined SPAN files to allow firms to test combined margin processing.

Beginning in late first quarter 2009, NYMEX and COMEX products will be available in the CME Clearing's full "New Release" testing environment. We expect to provide clearing firms with several months for end-to-end testing of NYMEX and COMEX products with CME Clearing's systems.

### **Industry consultation and collaboration**

We recognize that the integration of NYMEX and COMEX into the CME Clearing process is no small project, and is similar in scope to the implementation of common clearing for CBOT and CME products in late 2003 and early 2004. We look forward to extensive consultation and collaboration with the industry as this process proceeds, to ensure that maximum benefits, efficiencies and cost savings can be delivered to clearing firms.