

## Advisory Notice

Clearing House

09-126

TO: Clearing Firms

FROM: CME Clearing

SUBJECT: Agricultural Swaps through CME ClearPort

DATE: March 27, 2009

On April 6, 2009, CME ClearPort will begin clearing privately-negotiated transactions in CBOT Agricultural Swap products consisting of corn basis swaps and calendar swaps in corn, wheat and soybeans. Additionally, CME and CBOT received approval from the CFTC that would allow Agricultural Swaps to be eligible for treatment under section 4d of the Commodity Exchange Act. **This means that Agricultural Swap products are eligible for the same standard customer segregation protections as are applied to futures.**

Agricultural Swaps may be submitted for clearing via the CME ClearPort Web site, or directly by clearing firms to Front-End Clearing (FEC). Details are provided in the New Product Advisory notice NP09-07, at: <http://www.cmegroup.com/tools-information/lookups/advisories/clearing/files/NPadv09-07.pdf>.

Although these products are swaps and not futures, their product type will be provided in messages and data files as FUT and they will have a daily cash mark-to-market exactly as futures do. Agricultural Swap products will behave in clearing and bookkeeping systems exactly as if they were futures. In particular, if the origin on an Agricultural Swap trade is submitted as "C" for customer, the trade will be booked to the standard customer-segregated position account and will appear on the FIXML Trade Register file and the Trade Register report in the standard customer-segregated origin.

For additional information, please review the FAQ section below:

**1) Who is eligible to trade Agricultural Swap products?**

- a) Customers must meet the definition of an "eligible swap participant" in CFTC Regulation 35.1(b)(2). To clear Agricultural Swaps, a clearing firm must be a CBOT Clearing Member, or must be an OTC Clearing Member, have a minimum of \$50 million in capital, and meet the other requirements of CME Rule 8F04, <http://www.cmegroup.com/rulebook/CME/I/8F/8F.pdf>.

**2) How do these products trade and how are they reported for clearing?**

- a) These products are traded as privately negotiated trades (i.e. ex-pit) and must be reported to the CME ClearPort Web site or the back-office's FEC application immediately following agreement of the terms of the trade.

**3) How does one sign up and register for CME ClearPort?**

- a) Customers using CME ClearPort must establish a relationship with a clearing member of the exchange related to the product traded. For Agricultural Swaps, that would be the CBOT. In addition, each customer must submit registration documentation and sign an Exchange User License Agreement ("EULA"). Please refer to "Getting Started" at the following link [www.nymex.com/cp\\_start.aspx](http://www.nymex.com/cp_start.aspx) for additional information regarding CME ClearPort registration.

**4) How are trades reported to CME ClearPort?**

- a) Privately negotiated transactions conducted off-exchange can be (1) submitted directly to CME ClearPort via the CME ClearPort Web site, (2) submitted via a FIX user interface and direct API connection or (3) reported by phone to the CME ClearPort Facilitation desk (for non-brokered trades only). Please refer to the following link for the FIX connection specifications and for further information about the CME ClearPort clearing customer services group:  
[http://www.nymex.com/media/cpt\\_regprep.pdf](http://www.nymex.com/media/cpt_regprep.pdf).

**5) How are customers' trades 'risk managed' on CME ClearPort?**

- a) At the point of submission, all orders are subject to risk acceptance parameters (e.g., position limits/ RAV limits) as defined by the clearing members at the customer account level. A trade is posted and processed in clearing only if it clears the pre-defined risk/ RAV (risk allocation value) credit limit as established by the respective clearing members.

**6) How will these products post and clear on CME clearing systems?**

- a) Agricultural Swaps will post in FEC as any other ex-pit privately negotiated transaction ((PNT) and are eligible for all GUI and API post-trade processing functions (e.g., give-ups, averaging, etc.). As noted above, Agricultural Swaps will clear in the customer origin of the trade register along with all other CFTC-approved customer segregated trades and their variation payments will be included in the net settlement variation of the customer origin.

**7) Are Agricultural Swaps treated any differently for performance bond margining purposes?**

- a) No, performance bonds for these products will be calculated by SPAN and reduced spread margining will be available at the clearing and customer levels where appropriate.

**8) Are there any additional clearing fees associated with Agricultural Swaps?**

- a) There are no additional fees assessed on Agricultural Swap products other than the normal clearing fee associated with the account holder on whose behalf the trade was made.

**9) How should these products be reported on customers' statements?**

- a) These trades should be displayed in the customer seg origin on customer statements in the same way as equivalent off-exchange (ex-pit) transactions currently are displayed.

For additional information, please contact CME Clearing at 312-930-3170, or e-mail at [ccs@cmegroup.com](mailto:ccs@cmegroup.com).