

Advisory Notice

Clearing House

10-221

TO: Clearing Member Firms
Back Office Managers

FROM: CME Clearing

DATE: May 21, 2010

RE: Wet Tanker Freight Forward Contracts – Effective Monday, June 7th, 2010

On Monday, June 7, 2010, CME will launch clearing of ten **Wet Tanker Freight Forward** contracts. Privately-negotiated deals in these contracts will be submitted to CME Clearport, and cleared exactly as any other Clearport product. These new wet freight contracts will be cleared as **NYMEX products**, and generically are **cash-settled forwards**.

The only other forward contract that CME Clearing currently processes is the Cleared OTC London Gold contract, which clear as **COMEX** products, and generically are **physically-delivered forwards**. CME Clearing expects to begin accepting various other cash-settled or physically-delivered forwards contracts in the near future. So handling forwards should be considered a generic part of the clearing and bookkeeping process.

The overall clearing process for forwards is explained on the CME Group website at:
<http://www.cmegroup.com/clearing/files/Clearing-Bookkeeping-Processing-Forwards.pdf>
In particular regarding these new wet freight forwards:

- These are NYMEX products. See New Contract Advisory Notice, at:
www.cmegroup.com/tools-information/lookups/advisories/clearing/files/NPadv10-09.pdf,
for full details. The product type code is **FWD**, short for forwards, and the settlement method is **CASH**.
- Deals are submitted to CME Clearport as with any Clearport product. The trade type is **OPNT** – short for over-the-counter privately-negotiated-trade.
- The regulatory status for customer trades is **30.7 Secured**. These are **not** segregated futures.
- Contracts are priced as a percentage of the Worldscale rate for the given shipping route, out to 0.001%. For example, a typical price might be 120.275%. At maturity, the final settlement price has one more digit, out to 0.0001%. Settlement prices in the positional-format SPAN files and settlement price files will have **four** implied decimal places, to support a final settlement price out to a precision of 0.0001%.

- The Worldscale rate for a given route is typically set late in the year, for the following year, and is expressed in USD per metric ton. For example, a typical rate might be \$22.72 per ton. The contract size is 1,000 metric tons.
- Because the contract size is 1,000 metric tons, and the price is expressed in percent, therefore the contract value factor for each contract is ten times the Worldscale rate. In this example, the contract value factor would be 227.20.
- When the Worldscale rate for the contract is updated, the contract value factor for the contract must be correspondingly updated.
- Contracts are forwards, not futures. All trades are held open at original trade price, except if torn up (see below.) Each day, all open trades are marked from original trade price to that day's settlement price. The resulting amounts are discounted back to present value and netted together. The result is a **collateralized mark to market amount**: if a loss, this increases the performance bond (initial requirement) which must be posted, or if a gain, it decreases the performance bond requirement. **There is no daily banking of settlement variation.**
- You can tear up an open trade by clearing an exactly offsetting transaction – same contract, same price, opposite side of market – and then advising the Clearing House that the original trade and its opposite should be torn up. You can do this with either your original counterparty or some other party. There will normally be a separate cash movement, since the market will likely be at a level different from your original trade price, and if desired, you can request that this cash movement be done through the clearing system.
- At contract maturity, the collateralized mark-to-market amount will be zero'd out, and the final mark-to-market amount is banked in cash. This is what it means for this contract to be a cash-settled forward.

Note that the Worldscale flat rates applicable to these contracts are published by the Worldscale Association (NYC) Inc., and are available only to subscribers. In publicly-available datafiles such as SPAN files and Product Reference files, the contract value factor for each forward contract will be provided as a generic value of one. The actual multiplier to be used for each contract will be provided only to clearing member firms with positions in these contracts and to their bookkeeping service providers, if any.

For more information, please contact CME Clearing at 312-207-2525.