

COMEX Gold Warrants

FREQUENTLY ASKED QUESTIONS

What are COMEX gold warrants?

COMEX gold warrants are classified as electronic documents of title under the Uniform Commercial Code (UCC) and are issued by Exchange-approved COMEX depositories. Each warrant is registered at the Exchange and linked to specific bars with identifiable and unique warrant numbers traceable to each COMEX gold depository.

Why are COMEX gold warrants as collateral attractive to the market?

COMEX gold warrants may provide funding efficiencies to clearing members by offering an alternative method to fund initial margin requirements, which allows them to further optimize how they deploy their assets.

What initial margin requirements can be met with gold warrants?

COMEX gold warrants are acceptable collateral for USD-denominated Base and IRS performance bond requirements in the Non-Segregated (House), Customer Segregated, and Customer OTC origins.

How is gold registered and warranted with the Exchange?

At the instruction of a clearing member, COMEX gold depositories register/warrant eligible gold bars with the Exchange on behalf of clearing members and their clients. There are no changes to this process.

Who are the Exchange-approved COMEX gold depositories?

Currently, COMEX gold depositories include Brink's, Inc.; Delaware Depository; HSBC Bank, USA; International Depository Services of Delaware; JP Morgan Chase Bank NA; Loomis International (US) Inc.; Malca-Amit USA, LLC; and Manfra, Tordella & Brookes, Inc.

What is a UCC-1 financing statement and why is it filed?

In general, a UCC-1 financing statement is a publicly available filing which perfects a secured party's lien on collateral. In order for the lenders under CME's committed credit facility to accept warrants pledged to CME as collateral, the lenders must ensure that they will have a perfected security interest in the warrants. The filing of the UCC-1 is intended to achieve this result.

When a warrant is pledged as collateral, is the title to the warrant transferred to CME?

Yes. Under CME Rule 819, clearing members grant CME a first priority, perfected security interest in collateral pledged to CME. The transfer of title to CME is intended to achieve this result.

How will clearing members pledge warrants to CME as collateral?

Per current practice with other collateral types, clearing members initiate a pledge/withdraw transaction in Clearing 21. Clearing 21 communicates with Deliveries Plus to display all registered gold, including pledged gold warrants.

What are the statuses for pledged material in Deliveries Plus?

When a pledge is initiated by a clearing member, the warrant status will change from "Registered" to "Pledged_PB_ Pending". Upon confirmation of the transfer to CME, the status will change to "Pledged_PB".

Is a pledged warrant still considered registered with the Exchange?

Yes, pledged warrants remain registered material with the Exchange. The Gold Stock Report includes a separate line item for pledged inventory warehoused at each COMEX gold depository.

Are there operational changes with expansion to the Customer origins?

Yes. Clearing members must ensure an account number is provided in Deliveries Plus before depositing gold warrants to meet requirements in the Customer origins.

Will reports be available for pledged warrants?

Yes. Financial and Delivery reports currently distributed to clearing members will include details regarding warrant status, including warrants pledged as collateral ("Pledged_PB").

What are the deadlines to pledge and withdraw gold warrants?

The deadline to initiate a pledge or withdraw transaction in Clearing 21 is 2 p.m. ET for same-day settlement. Warrants may be withdrawn as long as there is sufficient excess collateral value on deposit.

Can warrants in a "Pledged_PB" or "Pledged_PB_Pending" status satisfy a delivery obligation under a COMEX Gold futures contract?

No, warrants in a "Pledged_PB" or "Pledged_PB_Pending" status cannot be used to satisfy a delivery obligation. To satisfy a delivery obligation, a pledged warrant must first be withdrawn from Clearing 21 and removed from either of the above classifications in Deliveries Plus. The clearing member can then submit their Intent to Deliver.

Will the same warrant pledged be returned when withdrawn?

Yes, the same warrant is returned upon withdrawal.

How will CME segregate customer assets?

CME will segregate COMEX gold warrants on deposit through its inventory management system for electronic documents of title, Deliveries Plus. CME will maintain a record of gold warrants deposited as performance bond and segregate customer assets by origin through this system.

Should clearing members anticipate internal changes to participate in the program?

Operational changes may be required to support the acceptance of gold warrants from customer accounts, including back-office systems.

How does CME value COMEX gold warrants pledged as collateral?

CME values COMEX gold warrants on a daily basis using the front-month GC futures settlement price. The front-month is also referred to as the "near" or "spot" month, defined as the futures contract nearest to expiry.

What haircut is applied to gold warrants pledged as collateral?

Similar to London gold bullion, CME Clearing applies a 15% haircut to COMEX gold warrants.

Is London gold bullion accepted to meet initial margin requirements in the customer origins

London gold bullion is only permitted to meet performance bond requirements in the Non-Segregated (House) origin.

Who pays for storage costs?

The clearing member pledging the warrant is responsible for storage costs, which is consistent with the current practice for all registered material. CME debits the clearing member for storage costs, and the payment is credited to the depositories.

Are there collateral fees associated with warrants as collateral?

Collateral fees for gold warrants are consistent with other collateral types, more information can be found on the CME Group website: <https://www.cmegroup.com/clearing/financial-and-collateral-management/cash-interest-rates-and-non-cash-collateral-fees.html>

Are any COMEX gold warrants not accepted as collateral?

Elemental (ELEM) and Al Ethiad (ALET) brands are not accepted as performance bond. These brands were previously suspended from registration by the Exchange.

Contacts:

For further information related to collateral, please contact CME Credit Risk at creditrisk@cmegroup.com

For further information related to processing and testing in Deliveries Plus, please contact Deliveries at clearinghousedelivteam@cmegroup.com

For further information related to processing and testing in Clearing 21, please contact Financial Operations at clearinghousefinancial@cmegroup.com

For further information related to the Gold Stock Reporting, please contact the Office of the Registrar at registrar@cmegroup.com

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