

Date

17 April 2008

Recipients

All DME Members

From

Gary King, Chief Executive Officer

Category

Business Development

Proposal

Proposed Rule changes to DME Rules to introduce new DME Contracts.

Consultation Paper 08-006 is issued in accordance with Dubai Mercantile Exchange Limited (DME) Rule 4.21 and Section 9 of the Authorised Market Institutions Module of the Dubai Financial Services Authority (DFSA) Rulebook. This Consultation Paper seeks comments on proposals to amend the DME Rulebook to introduce three new Contracts, namely the DME Brent Crude Oil Financial Contract, the DME Oman Crude Oil Financial Contract and the DME WTI Crude Oil Financial Contract (together "the Financial Contracts"). The DME intends to launch the Financial Contracts as soon as practicable.

To whom does this Consultation Paper apply?

Consultation Paper 08-006 is directed primarily at DME Members and other users or prospective users of DME's facilities. DME also welcomes any comments from any organisation which represents groups of such users or prospective users.

How is this structured?

New Contracts

DME proposes to introduce new Chapters 13, 14 and 15 to the DME Rulebook as follows:

Chapter 13: DME Brent Crude Oil Financial Contract;

Chapter 14: DME Oman Crude Oil Financial Contract; and

Chapter 15: DME WTI Crude Oil Financial Contract.

Contract terms

Each of Chapters 13, 14 and 15 set out the terms of the respective Financial Contracts. These terms are set out in the Appendices to this Consultation Paper.

The new contracts will be governed by English law.

Rationale for the Rule changes

(i) The DME Brent Crude Oil Financial Contract and DME WTI Crude Oil Financial Contract

Historically, oil refining and oil trading businesses have managed their exposure to the value differential between sweet and sour crude through Brent and Dubai OTC swaps. With the launch of the DME, this facility was provided via DME Direct™ in the form of two financially-settled spread contracts: the WTI-Oman Financial Spread Contract and the Brent-Oman Financial Spread Contract. Initially, these spread contracts traded well, with open interest building. However, as a result of the absence of a direct linkage to the underlying physically-settled Oman Crude Oil Futures Contract, the market in these spread contracts diminished. These contracts have now been delisted and removed from the Rulebook.

The DME considers that the need for suitable spread arrangements is still very much in demand, but that spread contracts in DME Chapters 11 and 12 of the DME Rulebook were not the means of facilitating these types of trades. This has been confirmed in feedback to DME from the market. DME considers that the solution, from both a commercial and technological perspective, is to introduce Brent and WTI futures contracts for trading on DME Direct™. This financially-settled contract is identical to that listed on ICE thus enabling spread trades to be affected on the DME Direct™ platform rather than list the spreads as individual spread contracts. The superior implied capabilities of the match engine at the heart of DME Direct™ will enable DME Members and other users, and their customers, to trade spreads far more effectively in this way than the existing spread contracts have done.

(ii) The DME Oman Crude Oil Financial Contract

The introduction of the DME Oman Crude Oil Financial Contract provides for the needs of the financial community to be able to participate in, and gain exposure to, the sour crude oil Exchange-traded market but avoiding the direct exposure to physical delivery, which many of these firms have prohibitions against trading in their bylaws. This contract will also facilitate the needs of the same community to trade intra-commodity spreads, as above, but without the physical aspect of the underlying Oman Crude Oil Futures Contract.

Clearing and Settlement

In accordance with the arrangements in place between DME and NYMEX, Inc. in relation to the clearing and settlement of DME trading, NYMEX, Inc. has agreed to accept the new Financial Contracts for clearing. They will be cleared through DME Clearing Members. Clearing and settlement of the new Financial Contracts will be subject to the NYMEX, Inc. Clearing Rules. NYMEX, Inc. Rules relating to the fixing, calculation and collection of margin from Clearing Members will apply to the new contracts, as between NYMEX, Inc. and the Clearing Members.

Commodities Futures Trading Commission (CFTC)

DME has the benefit of a no-action letter from the CFTC permitting DME futures and option contracts to be available for trading by direct access from the US on DME Direct™. The DME is currently in the process of working with the CFTC to extend the terms of their no action to cover the trading of the proposed new Financial Contracts and the clearing of those contracts by NYMEX, Inc.

Projected volatility and volumes

On behalf of DME, NYMEX, Inc. has undertaken an analysis of the volatility and projected trading volumes in relation to each of the new Financial Contracts. The 20-day volatility for the Oman Crude Oil Futures Contract is currently in the order of 26.5%. With that as a point of reference, DME and NYMEX, Inc. project levels of volatility for each of the Financial Contracts as follows (on a 20-day average):

- (a) DME Brent Crude Oil Financial Contract – 26.2%.
- (b) DME Oman Crude Oil Financial Contract – 26.5%
- (c) DME WTI Crude Oil Financial Contract – 27.4%

Estimated trading volumes for each new Financial Contract over the first year (average contracts trading per day) are:

- (a) DME Brent Crude Oil Financial Contract – 1000 lots
- (b) DME Oman Crude Oil Financial Contract – 750 lots
- (c) DME WTI Crude Oil Financial Contract – 750 lots

On the basis of these projections, DME and NYMEX, Inc. have concluded that there should be sufficient liquidity in the new Financial Contracts to support their launch. DME is confident that there is a proper market for the new contracts.

Availability and transparency of trading information

The pricing mechanism for each proposed new Financial Contract is clearly identified. The Floating Price for each Financial Contract is referenced to the existing published relevant price applicable to corresponding physically-settled futures contracts (except ICE Futures Europe) currently being traded on other regulated exchange, NYMEX, Inc (www.nymex.com) in respect of its Light Sweet Crude Oil Futures Contract, ICE Futures Europe (www.theice.com) in respect of its Brent Crude Futures Contract (financially settled) and DME (www.dubaimerc.com) in respect of its Oman Crude Oil Futures Contract.

The DME would, in cases of price discontinuities in the underlying contract, mirror the underlying contracts in all situations so, for example, if the ICE Brent settlement price was ever delayed for any reason the DME would use the ICE settlement price when it became available. In the case of a more serious situation e.g., in the extremely unlikely situation that one of the underlying contracts were withdrawn and there was no longer any settlement price information available from the underlying contracts, the DME would have a number of fall-back options that would be pursued including:

- a) looking at transactions taking place in the physical market through talking to market participants and reviewing industry reporting agency data such as published by Petroleum Argus and Platts
- b) Looking at the correlation between Brent, WTI and Oman Crude Oil Futures contracts;



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Consultation Paper
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- c) Consulting with industry participants
- d) Looking at the trading prices of the Financial Contracts on DME

How to provide comments?

The deadline for providing comments on the proposals in this Consultation Paper is 2 weeks from the date of this Consultation Paper. All comments on the proposed changes should be addressed to:

Mr Matthew Thompson
Chief Strategy and Business Development Officer
Dubai Mercantile Exchange Limited
P.O. Box 66500
Dubai
United Arab Emirates
or matthew.thompson@dubaimerc.com

What is the next step?

Unless specifically requested otherwise, DME may publish on its website any comments it receives in this consultation.

As soon as practicable following the deadline for comments on the proposals in this Consultation Paper, DME will consider whether any amendment or revision to the proposed changes is appropriate. DME will then implement the changes to the DME Rulebook (including any amendment or revision, if appropriate). The amendments to the DME Rules will only take effect once approved by the DFSA. DME will issue a Member Notice on the DME website confirming the date upon which the changes to the DME Rules will become effective.

Appendix

Appendix 1, 2 and 3 are below

Signed

Gary King

Chief Executive Officer

Please pass comments to:

Mr Matthew Thompson, Chief Strategy and Business Development Officer
matthew.thompson@dubaimerc.com

APPENDIX 1

Chapter 13 DME Brent Crude Oil Financial Contract

Table of Contents

13.1	Scope
13.2	Definition
13.3	Floating Price
13.4	Contract Size and Value
13.5	Contract Months
13.6	Prices and Fluctuations
13.7	Termination of Trading
13.8	Final Settlement
13.9	Governing Law

13.1 Scope

This Chapter shall apply to a DME Brent Crude Oil Financial Contract (the **Contract**) bought or sold on the Exchange for cash settlement based on the Floating Price.

13.2 Definition

In this Chapter, the following definition will apply:

- (1) **First Nearby Month** means the most recent month for which trading is being transacted, or the spot month.
- (2) **ICE** means ICE Futures Europe.
- (3) **ICE Brent Crude Futures Contract** means the Brent Crude Futures Contract traded on ICE;
- (4) **London Business Day** means a day (other than a Saturday or Sunday) on which banks in London are open for the normal conduct of banking business.

13.3 Floating Price

The Floating Price for each contract month is equal to the First Nearby Month daily settlement price that is determined by ICE for the ICE Brent Crude Futures Contract on the last trading day for the ICE Brent Crude Futures Contract for the corresponding delivery month.

13.4 Contract Size and Value

The Contract size shall be 1,000 barrels. Each Contract shall be valued as the contract size (1000) multiplied by the Final Settlement Price (as defined below).

13.5 Contract Months

Trading shall be conducted in the Contracts in such months as shall be determined by the Exchange.

13.6 Prices and Fluctuations

Prices shall be quoted in U.S. dollars and cents per barrel. The minimum price fluctuation shall be \$0.01 (one cent) per barrel. There shall be no maximum price fluctuation.

13.7 Termination of Trading

Trading shall cease on the last Trading Day of the ICE Brent Crude Futures Contract for the corresponding delivery month, i.e. on the Trading Day immediately preceding the fifteenth (15th) day prior to the first day of that delivery month, if the fifteenth (15th) day is a London Business Day in London, otherwise trading shall cease on the Trading Day immediately preceding the first London Business Day prior to that fifteenth (15th) day.

13.8 Final Settlement

Delivery under the contract shall be by cash settlement. The Final Settlement Price following termination of trading for a Contract Month will be the Floating Price for that Contract Month calculated in accordance with Rule 13.3.

13.9 Governing Law

The Contract shall be governed by and construed in accordance with English law.

APPENDIX 2

Chapter 14 DME Oman Crude Oil Financial Contract

Table of Contents

14.1	Scope
14.2	Definitions
14.3	Floating Price
14.4	Contract Size and Value
14.5	Contract Months
14.6	Prices and Fluctuations
14.7	Termination of Trading
14.8	Final Settlement
14.9	Governing Law

14.1 Scope

This Chapter applies to a DME Oman Crude Oil Financial Contract (the **Contract**) bought or sold on the Exchange for cash settlement based on the Floating Price.

14.2 Definitions

In this Chapter the following definitions shall apply:

- (1) **DME Oman Crude Oil Futures Contract** means the Futures Contract whose terms are set out in Chapter 10; and
- (2) **First Nearby Month** means the most recent month for which trading is being transacted, or the spot month.

14.3 Floating Price

The Floating Price for each Contract Month will be equal to the Settlement Price of the DME Oman Crude Oil Futures Contract as of 16:30 (Singapore time) for the corresponding Contract Month of the DME Oman Crude Oil Futures Contract.

14.4 Contract Size and Value

The contract size shall be 1000 barrels. Each Contract shall be valued as the contract size (1000) multiplied by the Final Settlement Price (as defined below).

14.5 Contract Months

Trading shall be conducted in the Contracts in such months as shall be determined by the Exchange.

14.6 Prices and Fluctuations

Prices shall be quoted in U.S. dollars and cents per barrel. The minimum price fluctuation shall be \$0.01 per barrel. There shall be no maximum price fluctuation.

14.7 Termination of Trading

Trading in the First Nearby Month shall cease on the Trading Day immediately preceding the last day of trading in the First Nearby Month of the DME Oman Crude Oil Futures Contract for the corresponding delivery month.

14.8 Final Settlement

Delivery under the Contract shall be by cash settlement. The Final Settlement Price following trading for a Contract Month will be the Floating Price determined as of 16:30 (Singapore time) on the last Trading Day in that Contract Month.

14.9 Governing Law

The Contract shall be governed by and construed in accordance with English law.

APPENDIX 3

Chapter 15 DME WTI Crude Oil Financial Contract

Table of Contents

15.1	Scope
15.2	Definition
15.3	Floating Price
15.4	Contract Size and Value
15.5	Contract Months
15.6	Prices and Fluctuations
15.7	Termination of Trading
15.8	Final Settlement
15.9	Governing Law

15.1 Scope

This Chapter shall apply to a DME WTI Crude Oil Financial Contract (the Contract) bought or sold on the Exchange for cash settlement based on the Floating Price.

15.2 Definition

In this Chapter, the following definition will apply:

- (5) First Nearby Month means the most recent month for which trading is being transacted, or the spot month.
- (6) NYMEX Light Sweet Crude Oil Futures Contract means the contract whose terms are set out in Chapter 200 of the NYMEX, Inc. Rules.
- (7) NYMEX Trading Day means a day on which NYMEX, Inc. is open for trading.

15.3 Floating Price

The Floating Price for each Contract Month is equal to the First Nearby Month daily settlement price determined by NYMEX, Inc. for the NYMEX Light Sweet Crude Oil Futures Contract on the penultimate NYMEX Trading Day for the NYMEX Light Sweet Crude Oil Futures Contract for the corresponding delivery month.

15.4 Contract Size and Value

The Contract size shall be 1,000 barrels. Each Contract shall be valued as the contract size (1000) multiplied by the Final Settlement Price (as defined below).

15.5 Contract Months

Trading shall be conducted in the Contracts in such months as shall be determined by the Exchange.

15.6 Prices and Fluctuations

Prices shall be quoted in U.S. dollars and cents per barrel. The minimum price fluctuation shall be \$0.01 (one cent) per barrel. There shall be no maximum price fluctuation.

15.7 Termination of Trading

Trading shall cease on the last Trading Day prior to the termination date of the NYMEX Light Sweet Crude Oil Futures Contract for the corresponding delivery month.

15.8 Final Settlement

Delivery under the contract shall be by cash settlement. The Final Settlement Price following termination of trading for a Contract Month will be the Floating Price for that Contract Month calculated in accordance with Rule 13.3.

15.9 Governing Law

The Contract shall be governed by and construed in accordance with English law.