DME Oman Crude Oil Futures EFP

1. What is an Exchange of Futures for Physical (EFP)?

The Exchange of Futures for Physical (EFP) allows participants to exchange their positions in DME Oman futures market for a position in the physical oil market.

The participants take an equal and opposite futures position to the position they hold in the physical market.

This enables them to separate pricing from supply by exchanging their physical price exposure for futures price exposure.

2. What are the advantages of an EFP?

Once the EFP is submitted and accepted, the counterparts have closed off the relevant position on DME Oman Crude Oil Futures and will no longer be liable for margin payments.

Any margin held by the Clearing Member will be released. Any short or long position the participants have established will be closed out by the EFP and will not move to physical delivery through DME.

Submitting an EFP means the exchange will no longer guarantee the positions held by the two participants who will now be exposed to each other's credit and performance.

The EFP mechanism will not be suitable for every customer.

Some customers choose to use the EFP mechanism in order to select the counterparty with which they will be matched for physical delivery as DME matching algorithm may match them with an unfamiliar counterparty or with multiple counterparties.

Example: China Import Co. always buys 500 lots of Oman via DME while China Upstream Co. always sells 500 lots of Oman via DME.

The two counterparties, who have physical positions, have open lines of credit with one another and great confidence in each other's performance so they agree to submit an EFP for 500 lots in order to take their deal off the exchange and to have their respective margins returned.

3. How do I establish the price of an EFP?

The EFP trades as a differential between the futures market and the underlying physical market.

The value of the differential is not fixed and will reflect the relative value of physical versus the futures at any given time.

The EFP can be positive, neutral or negative, depending on whether participants value their futures position at a differential to the equivalent physical position.

Market participants can establish the current buy-sell range of an EFP by calling around other market participants or by using a broker. DME does not set the price of EFPs because the EFP market is a bilateral, off-exchange market.

4. Will the market know the price of my EFP?

No. When EFPs are submitted for clearing the volume is attributed to DME volume for that trading day but the price is not declared to the market.

5. What is the cost of trading an EFP?

Separate to the price of the EFP deal, which fluctuates and is established in the market as described above, there will also be fixed costs associated with submitting an EFP.

The participants will have to pay $6.00/lot to DME (see the Exchange Fees section on DME website) as well as fees to their Clearing Member and to an OTC broker if they use a broker's services to find a counterparty.

6. Is there a minimum volume applicable to EFPs?

An EFP can be submitted for a single lot (1,000 barrels), unlike a standard block trade which can only be submitted for a minimum of 50 lots (50,000 barrels).

7. On the physical side, can I only EFP Oman Blend at Mina Al-Fahal?

No. An EFP can be submitted for any related physical position where the pricing may be legitimately managed by a DME Oman futures position.

If you are concerned that the physical leg of the EFP transaction may not be acceptable, please contact DME Compliance department before transacting the EFP.

Example: The following would be considered legitimate for an EFP

- *Deliveries of other Middle East crude grades, such as Murban, Upper Zakum or Qatar Marine*
- *Deliveries of refined products in the region, such as fuel oil from Fujairah*
- *Deliveries of Oman Blend from storage elsewhere in the region or from an alternative location*

Physical products with no legitimate price linkage to DME Oman Crude Oil Futures, such as gold or agricultural products, would not be considered acceptable

8. Can the size of the physical and futures positions be different?

No. An EFP may trade for any number of contracts, but it must be approximately equivalent to the underlying physical transaction volume.

9. Can the entity submitting an EFP be different to the entity holding the physical contract?

The entity submitting the EFP must be identical to the entity holding the physical contract.

Example: OilTrade Geneva SA is short 500 lots of DME Oman Crude Oil Futures. DME will accept an EFP from OilTrade Geneva SA linked to a 500,000 barrel position held by its 100% subsidiary OilTrade Singapore PTE Ltd. But DME will not accept an EFP that is linked to a 500,000 barrel position held by OilTrade's 50/50 joint venture OilTrade Dubai

10. I am a bank trader executing on behalf of a refiner with a physical position, can I use the EFP mechanism?

As noted above, the entity submitting the EFP must be identical to the entity holding the physical contract.

So a bank trader may not use the EFP mechanism if the underlying physical position belongs to the bank's customer rather than the bank itself. If you do not yourself have a matching physical position, then you should not use the EFP mechanism.

11. How can I submit an EFP to the DME?

EFPs must be submitted to the DME via CME ClearPort® (www.cmegroup.com/clearport). There are four ways of submitting an EFP:

- **Broker entry:** Once a deal is reached, the broker enters the trade into the CME ClearPort web-based user interface (GUI) or CME ClearPort API.
- **Facilitation desk:** Once a deal is reached, one of the traders call the CME ClearPort facilitation desk at +1 212 299 2670, +1 800 438 8616 (US Toll Free Number), +44 (0) 800 898 013 (UK Toll Free Number). The facilitation desk contacts the other trader to confirm. When the desk has confirmation from both parties, it processes the trade.
- **Third-party matching:** In this scenario, two traders are matched by a third-party matching/confirmation platform. The matching platform writes the trade directly into the CME ClearPort API.
- **Front-End Clearing (FEC)**: EFP transactions may also be posted directly into FEC by a clearing member on behalf of the customer. Access to FEC is granted by CME to clearing members only and may be requested by submitting an access request form. Market participants interested in submitting an EFP into FEC through their clearing member are advised to contact their clearing member directly.

12. Do the EFP counterparts need to be registered with CME ClearPort?

Yes. The EFP is treated like a block trade and must be submitted through CME ClearPort so both sides have to have a CME ClearPort registration (EULA). The only exception is if the customers are using the FEC process as described above.

13. When do I need to submit an EFP to DME?

EFPs that related to front-month DME Oman Crude Oil Futures must be submitted at the latest within 61/2 hours after the expiry of the front month (11pm Singapore time/7pm Dubai time). There is no limit on how early an EFP can be submitted for a listed month, so it is possible for participants to submit an EFP even a year in advance.

14. What documents are required?

Participants submitting an EFP must be able to show DME's compliance department evidence of an offsetting physical agreement on request.

DME will not call for documents for every single EFP but will carry out random spot checks to ensure that the EFP is legitimate.