

Warranting Metals

WARRANTING – DELIVERY – RENT/STORAGE – RETENDERING

What is a warrant?

A warrant for CME Group physically delivered Metals products is a document of title under Article 7 of the Uniform Commercial Code (UCC) representing a quantity of metal stored in an Exchange approved facility that meets the specifications of the metal futures contract. The owner of metal in store at an Exchange approved facility can elect to warrant, (aka register), metal through a clearing member. Warrants are held in the name of the clearing member and can be used to initiate delivery of a futures contract. DeliveriesPlus (DPlus) is the CME Group electronic delivery system through which deliveries of physically delivered products listed on CME Group are processed.

Three-Day Delivery Cycle

Unless otherwise noted in the Exchange's Rulebook, the delivery cycle for physically delivered Metals futures products is a three-day cycle that begins on the first position day and occurs throughout the delivery month.

1. Delivery Intention Day/Position Day

- The seller (short position holder) submits a notice of intention (issues) to deliver providing the warrants they wish to use for the delivery. (A short position holder must have enough metal warrants to satisfy the number of positions the seller is delivering).
- Warrants will include the brand, weight, warrant number and warehouse facility.
- The Clearing House will run an assignment matching counterparties and will provide reports to Clearing Members.

2. Notice Day/Invoice Day

- Invoices are issued by the Clearinghouse to the buyer (long) and seller (short).
 - Invoices are issued on the business day following the Intention Day.
 - The invoice contains the brand, warrant number, weight, Cost (based on settlement price on the Intention Day), seller and buyer information, approved facility where the metal is stored, and reimbursement of storage fees that were prepaid by the owner of the metal prior to delivery.

3. Delivery Day*

- Delivery takes place on any Exchange business day during the delivery month.
 - Seller receives electronic delivery of funds – settled through Clearing.
 - Buyer receives electronic warrant in their inventory in DPlus.

How Storage Payment for Metal on Warrant is Assessed and Charged

Monthly Process

Upon registration of a warrant, the warehouse collects storage fees for the remainder of the current month directly from the warranting entity. On a monthly basis, for Exchange registered warrants CME Clearing assesses storage fees to the warrant holder on the second to last business day of the month for the upcoming month. The storage fees are then debited from the clearing member on the last business day of the month via Clearing.

Daily Process

An intent to deliver a warrant may be entered by the Clearing Member on any valid Exchange business day. If tendered for delivery, the seller is responsible for storage through delivery day and is credited for any prepaid storage for the remainder of the month through the delivery invoice and payment process.

Cancellation and Cancel for Load Out Process

If a warrant is cancelled for load out during the month and the metal leaves the warehouse, the owner of the metal should not expect to be reimbursed for the storage for the balance of the month. Owners of metal that is cancelled not on warrant and in eligible status in the warehouse are subject to paying for storage directly to the warehouse and is outside the purview of the Exchange, but cannot exceed the storage rates posted for the warehouse on the [CME Group website](#).

**If issues are made on the next to last business day of the delivery month, the process is accelerated. (Notices of intention must be submitted by 12:00 p.m. CT and delivery is the following business day.) The settlement price is then based on the last trading day of the delivery month.*

Storage Calculations and Timeline Example

MAY 10:

Client A is short 1 June Gold futures contract

Client B is long 1 June Gold futures contract

- Client A has one 100 troy ounce gold bar stored at an Exchanged approved depository
- The depository registers the warrant in DPlus in the name of Client A's Clearing Member Firm (CMF)
- Storage is paid directly to the depository for the remainder of May by the underlying customer

MAY 30:

First Intent Day for June

- The storage cost for metal on warrant is assessed by Clearing

MAY 31:

Last Delivery Day for May

- Client A's CMF account is debited for the storage cost for June at the posted storage rate for the holding depository (service providers link)

JUNE 12:

Client A's CMF issues an intent to deliver

- Clearing assigns Client A's CMF to Client B's CMF
- Each CMF receives an assignment notification report

JUNE 13:

- Invoices are issued to CMFs of Clients A and B

JUNE 14:

DPlus transfers the warrant from Client A's CMF's inventory to Client B's CMF's inventory

- Client A is credited for the futures cost and reimbursed for the unused portion of the monthly storage
- Client B is debited for futures cost and the storage of the balance of the month

JUNE 27:

First Intent Day for July

- The storage cost for July for metal on warrant is assessed by Clearing

JUNE 28:

Last Delivery Day for June:

- Client B's CMF is debited the monthly storage for July

Delivery Assignment Options

When a long position holder is assigned a warrant through the delivery process, the following options are available:

1. Retender the warrant for delivery on the next Exchange business day, or
2. Take delivery of the warrant and continue to be held in store on warrant, or
3. Take delivery of the warrant, cancel the warrant and continue to hold the material in store as eligible metal (metal that meets the futures contract specifications, but not on warrant), or
4. Take delivery of the warrant and cancel for load out.

If the owner of the warrant chooses to retender the warrant, it can **only** be done on the business day after the delivery is assigned, otherwise the long will take possession of the warrant and can issue an intent at a later time. If the warrant is retendered, the price for delivery of the warrant is the settlement price of the retender day.

Warrant Retender Example

JUNE 10:

Client A is short 1 June Gold futures contract

Client B is long 1 June Gold futures contract

- Client A has one 100 troy ounce gold bar stored at the depository
- The depository registers the warrant in DPlus in the name of Client A's Clearing Member Firm (CMF)

JUNE 18:

Client A issues an intent for delivery

- Client B is stopped for delivery of 1 Gold futures warrant; the price is based on the settlement price of the intent date
- Client B takes a short position in June Gold futures

JUNE 19:

Client B retenders the warrant

- The price is based on the settlement price of the retender date

Conclusion

Warranting of metal for physically delivered Metals futures products is managed through the Exchange's DeliveriesPlus system including the transfer of warrants and fund calculations between buy side and sell side Clearing Members. The assessment of storage charges for rent associated with warranted metal is maintained by DPlus and follows the rules and requirements of the Exchange's approved service providers as prescribed by Chapter 7 of the COMEX/NYMEX rulebooks.

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