ICE Middle East Sour Crude Oil Futures Contract: FAQ

1. **Why are we launching a sour crude contract?**

   To provide a hedging tool to accommodate risk management needs in the global market for sour crude oil. According to the International Energy Agency (IEA), global oil demand is expected to increase in 2007 by 273,000 b/d to 86 million b/d. There is an important interdependence between Asian demand for oil and supply of sour crude oil from the Middle East. Approximately, two thirds of Middle Eastern exports are exported to Asian buyers importing over 70% of their crude requirement from the Middle East.

   While the Middle East accounts for 60% of global proven oil reserves, current oil benchmarks, Brent and WTI, are references for light sweet crude oil. The ICE Middle East Sour Crude Futures is designed to accomplish the joint goal of providing a market for sour crude while at the same time providing an additional hedging tool for crude traded between Asia and the Middle East. The new contract will also provide a tool for hedging the differential between sweet and sour crudes.

2. **How does the market trade sour crude now? Why is launching a sour crude futures better?**

   Why Dubai?
   Dubai is a widely traded benchmark crude oil with a large number of different trading companies participating in the OTC market on a daily basis. It is the leading, historically accepted crude marker for the OTC market in the Asia-Pacific region. For traders in Singapore, the Middle East and elsewhere, Dubai continues to be used to form the basis of both crack spreads and crude oil arbitrages between the Middle East, Europe and the Far East.

   Why futures?
   Dubai is currently traded as a financially settled swap on a bilateral basis which limits participation, liquidity and transparency. Development of a futures contract in a regulated and transparent environment will improve market and price transparency. A futures contract improves accessibility, as it can be traded by any market participant and facilitates easier hedging of e.g. the Brent/Dubai exposure.

   Why ICE Futures?
   Listing a sour crude futures contract on the ICE Futures platform allows for trading of Brent, Dubai and WTI on the same global electronic platform, which dramatically widens the trading audience. Over 10,000 ICE futures users in over 49 jurisdictions worldwide access ICE's trading platform every day. Users will also benefit from capital efficiencies as there will be margin offsets between Dubai, Brent, and WTI futures contracts.

The contract could, depending on liquidity, alter the way that Middle Eastern crude oils are priced into the Asia-Pacific region.

3. **Will there be market makers?**

Yes. We intend to have a market making programme with committed market makers in place when the contract launches, guaranteeing liquidity and prices on the screen. [See Circular 07/48 published April 24 2007)

4. **What is the mechanics of the Dubai/Oman partials market and the link to ICE Middle East Sour Crude Futures?**

The Platts Dubai physical assessments reflect trades, bids and offers in the partials market. Each partial size is 25,000 barrels and should 19 partials be traded between the same buyer and a seller, a physical cargo can be delivered. Should less than 19 partials be traded, the volume concluded will be cash settled using the last price assessment of the trading month.

Oman and Upper Zakum can be nominated for delivery against Dubai on physical convergence provided that 19 partial trades have been completed over the month between the same buyer and seller. The Platts Dubai assessments reflect activity in which the Dubai buyer will accept either an Oman or Upper Zakum cargo as an alternative delivery. The mechanism is very similar to BFO which is operating very successfully in the North Sea market.

It will be possible to register EFPs, EFSs, and Blocks on the Exchange. The EFP mechanism allows market participants to register their OTC positions with the Exchange for clearing resulting in the replacement of the OTC position with an equivalent futures position. The EFS mechanism allows registration of financially settled or swap positions.

Link to the physical market

Through expiry of the ICE Middle East Sour Crude Futures Contract against a physical price, it re-establishes the convergence between the futures and the underlying spot market. The Platts physical Dubai price represents the seller’s option to deliver either a cargo of Dubai, Oman or Upper Zakum at a point in time to the buyer. Physical oil traders can be assured that futures trading will therefore have a direct link to the underlying physical market.

5. Is it a deliverable contract?

No. The ICE Middle East Sour Crude Futures contract is financially settled against the mid-point of the Platts Dubai assessment at 1630 Singapore local time (0830 GMT/0930 BST) on the day of expiry as published on a daily basis in the Platts Crude Oil Marketwire.

6. Will there be minute markers and will they be tradeable?

There will be a daily tradeable minute marker at 16:30 local Singapore (08:30 GMT/09:30 BST) time to correspond with the end of the Platts Singapore trading window (Market on Close).

Trading shall cease on the close of business on the last trading day of the month two months preceding the contract month (i.e. the July contract will expire on the last trading day in May).

7. How will the contract settle/margin on a daily basis?

A daily settlement price will be issued for mark to market and margining purposes using a three minute trade weighted average. This is calculated in the same way as for ICE Brent Futures from 19:27:00 to 19:30:00 local London time.

8. What are the basics of the contract?

The contract size is 1,000 barrels per lot. It moves in USD $0.01 increments with a tick value of USD $10 (as for ICE Brent Futures and ICE WTI Futures).

Thirty seven consecutive contract months will be listed, along with quarters and calendar spreads for the entire length of the curve. The Block Trade, EFP and EFS mechanisms will be available from launch.

9. How will the settlement price at expiry be calculated?

The settlement price at expiry will be published to 2 decimal places with a cash adjustment in the event of a 3 decimal place assessment published by Platts.

10. What are the Exchange fees?

ICE Futures transaction fees: US$0.73 per contract, per side
LCH Clearnet Ltd. registration fees: US$0.09 per contract per side
EFP's, EFS's and Blocks fees: US$1.23 per contract, per side

For fee waivers please see below

11. Will there be a fee waiver?

Yes. ICE screen trading fees will be waved for an initial three month period from the day of launch but normal LCH.Clearnet Ltd. and Block, EFP and EFS fees will apply from day of launch.

12. Do I need new membership to trade the contract? Do I need new ID's to trade the contract? Do I need new technology and connectivity?

No, if you are already set up to trade ICE Futures contracts as a Member of ICE or as a customer of a Member there is no need for additional exchange membership, nor additional broker or clearer arrangements although you will need separate clearing limits for the new contract. Existing users of ICE Futures do not need any additional technology or connectivity to the trade the contract.

13. What are the trading hours for the contract?

	Singapore*	**London****	**New York**
Open	08:00	01:00	20:00 (previous day)
Close	06:00	23:00	18:00 (previous day)
Daily Settle	02:30	19:30	14:30 (previous day)
Final Expiry	16:30	09:30	04:30

*Times calculated as per BST
** The exchange will open at 23:00 local London time on Sundays

14. Can I trade calendar spreads and inter commodity spreads? How far out will the contract list? Will there be implied prices?

As with ICE Brent Futures and ICE WTI Futures, tradeable calendar spreads, tradeable settlements contracts, and tradeable calendar spread settlement contracts will be available. ICE Futures will list all combination of calendar spreads, with the first three calendar spreads, plus the first June and December being fully implied.

Additionally, there will non-implied inter-commodity spreads available for trading without legging risk:

ICE Brent Futures -ICE Middle East Sour Crude Futures
ICE WTI Futures – ICE Middle East Sour Crude Futures

15. Can I get real time price and news feeds from quote vendors?

The contract will be available on the 14 conformed independent software vendor solutions, including TT, PATS, NYFIX, GL Trade, Ffastfill, RTS (https://www.theice.com/publicdocs/technology/Independent_Software_Vendors_Conformance.pdf), on direct access users systems, and on the standard quote vendors, including Reuters, Bloomberg, and CQG (https://www.theice.com/data_vendor_matrix.jhtml).

16. **Where can I find margin information and are there margin offsets against other ICE Futures contracts?**

The contract will be cleared and marked to market by the LCH.Clearnet. Margin rates will be found on "ICE Futures Margin Circular" at http://www.lchclearnet.com/risk_management/ltd/margin_rate_circulars/ice_futures/default.asp
There will be margin offsets against ICE Brent Futures, ICE WTI Futures, ICE Gasoil Futures and ICE Heating Oil Futures.

17. **Who will regulate the contract?**

The contract is regulated by ICE Futures which is recognised as an investment exchange by the UK's Financial Services Authority.

18. **Will US participants benefit from the 60/40 Tax Treatment**

Yes. With the designation of ICE Futures as a "qualified board or exchange" under Section 1256 of the Internal Revenue Code, contracts offered by ICE Futures will afford U.S. market participants with the same tax treatment afforded to contracts traded on U.S. futures exchanges. Under so called "60/40 tax treatment," 60% of gains (or losses) on ICE Futures' contracts will be treated as long-term capital gain (or loss), and 40% of such gains (or losses) will be treated as short-term capital gain (or loss). Market users of the New York Board of Trade, ICE's U.S.-regulated futures subsidiary, already receive 60/40 tax treatment.

The ruling will apply to contracts traded on ICE Futures on and after April 1, 2007.

19. **Will there be a separate ISV Conformance Program for the contract?**

ISV's will be able to self certify conformance for the contract.

20. **Who can provide further information?**

Your usual account manager can provide additional information and help you set up or alternatively please contact:

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