



**IPE Brent Crude
futures Contract**

February 23, 2006

IPE Brent Crude futures Contract

Background

The IPE Brent Crude futures contract provides a highly flexible hedging instrument and trading mechanism.

It is tailored specifically to meet the oil industry's need for an international crude oil futures contract and is an integral part of the Brent pricing complex, which also includes spot and forward markets.

The IPE Brent Crude futures contract is a deliverable contract based on EFP delivery with an option to cash settle.

Features of the Contract

Increased flexibility

By providing a contract parallel to the physical market, the oil industry has the opportunity to separate its pricing from supply arrangements by means of EFPs and basis trading, giving greater control and flexibility with regard to the timing of purchases and sales.

Price transparency

Real-time prices are available through the major data vendors. As a result, the price at which a particular contract is trading can be known instantly by all participants.

IPE Brent Weighted Average (BWAVE)

The IPE Brent Weighted Average is produced on a daily basis. It represents the average price of all trades executed on the market floor for each contract each business day. Following its introduction in November 1999, the BWAVE has itself become a benchmark price in its own right.

As well as being the basis for EFP, EFS and OTC transactions, it is used directly by several major oil producing nations as the basis for crude exports into Europe.

The BWAVE is published each day after the close of business for that day. It was first published on 16 November 1999. An average for each traded month is published in the prices section of this site. The average is calculated for each traded month using trades executed during IPE opening hours. All trade types are included in the calculation except EFPs, EFSs, settlement, minute marker and contra trades which are excluded.

The calculation for each contract month is:

$$\frac{\text{Sum (Trade Volume * Trade Price)}}{\text{Total Daily volume (less EFP, EFS, Settlement & Contra Volume)}}$$

A real-time weighted average price (WAP) is calculated throughout the trading day.

Small parcel trading

The contract provides the opportunity to trade in small parcels (multiples of 1,000 barrels) of less than the standard cargo size necessary on the physical market.

Contract security

LCH.Clearnet Ltd (LCH.Clearnet) acts as the central counterparty for trades conducted on the London exchanges. This enables it to guarantee the financial performance of every contract registered with it by its members (the clearing members of the exchanges) up to and including delivery, exercise and/or settlement. LCH.Clearnet has no obligation or contractual relationship with its members' clients who are non-member users of the exchange markets, or non-clearing members of the exchanges.

Contract Specification

Date of launch

23 June 1988.

Trading Hours

	London (local time)	New York (EST)	Chicago (CST)
Open*	01:00	20:00	19:00
Close	22:00	17:00	16:00

* Except Monday morning/Sunday evening when the opening time is 00:00 London (local time), 19:00 New York (EST), 18:00 Chicago (CST).

Unit of trading

One or more lots of 1,000 net barrels (42,000 US gallons) of Brent crude oil.

Specification

Current pipeline export quality Brent blend as supplied at Sullom Voe.

Quotation

The contract price is in US dollars and cents per barrel.

Minimum price fluctuation

One cent per barrel, equivalent to a tick value of \$10.

Maximum daily price fluctuation

There are no limits.

Daily margin

All open contracts are marked-to-market daily.

Trading period

Consecutive months out to Dec 2011, plus June 2012 and December 2012.

Position limits

There are no limits to the size of position.

Delivery Mechanism

Cessation of trading

Trading shall cease at the close of business on the business day immediately preceding the 15th day prior to the first day of the delivery month, if such 15th day is a banking day in London. If the 15th day is a non-banking day in London (including Saturday), trading shall cease on the business day immediately preceding the first business day prior to the 15th day. These dates are published by the Exchange.

Delivery/settlement basis

The IPE Brent Crude futures contract is a deliverable contract based on EFP delivery with an option to cash settle against the published settlement price i.e. the IPE Brent Index price for

the day following the last trading day of the futures contract. If the contract is to be subject to the cash settlement procedure notice must be given (in accordance with LCH.Clearnet procedures) up to one hour after cessation of trading.

The IPE Brent Index

The Exchange issues, on a daily basis at 12 noon local time, the IPE Brent Index which is the weighted average of the prices of all confirmed 21 day BFO deals throughout the previous trading day for the appropriate delivery months. These prices are published by the independent price reporting services used by the oil industry.

The IPE Brent Index is calculated as an average of the following elements:

1. First month trades in the 21 day BFO market.
2. Second month trades in the 21 day BFO market plus or minus a straight average of the spread trades between the first and second months.
3. A straight average of all the assessments published in media reports.

Payment

Payment for contracts subject to the cash settlement procedure takes place through LCH.Clearnet within two business days of the cessation of trading.

Exchange of Futures for Physical (EFP) and Exchange of Futures for Swaps (EFS)

EFPs or EFSs may be reported to the Exchange during trading hours and registered by LCH.Clearnet up to one hour after the cessation of trading in the delivery month in which the EFP or EFS is traded. These allow more effective hedging opportunities for market participants with over-the-counter positions.

Law

The contract is governed by English law and includes provisions regarding force majeure, trade emergency and embargoes.

Clearing and Regulation

Clearing

LCH.Clearnet guarantees financial performance of all IPE contracts registered with it by its clearing Members. All ICE Futures Member companies are either members of LCH.Clearnet, or have a clearing agreement with a Member who is a member of LCH.Clearnet.

Regulation

ICE Futures is regulated in the UK by the Financial Services Authority (FSA) as a recognised investment exchange (RIE) under Part XVIII of the Financial Services and Markets Act 2000 (FSMA). Further, ICE Futures has secured the relevant regulatory approvals or secured a statement of no objection, or has satisfied itself that it does not require regulatory approvals to allow direct access to the ICE Platform in a number of other overseas jurisdictions, such as US and Singapore. The complete list of jurisdictions can be found at: www.theice.com/regulation.jhtml.

In accordance with the FSMA, all ICE Futures General Participants based in the UK will be authorised and regulated by the FSA. Where General Participants are incorporated overseas, they will be regulated by the relevant regulatory authority in that jurisdiction.

* * *

Contact Details

For questions and/or comments on this contract please contact Oil Markets on:

Tel: +44 (0) 20 7265 3646

Fax: +44 (0)20 7481 8485

Mail: ICE Futures
Market Development
International House
1 St Katharine's Way
London E1W 1UY
UK

Email: oilmarkets@theice.com