



Special Executive Report

DATE: January 18, 2017

SER#: 7838

SUBJECT: The Steel Index (TSI) Announces Methodology Change Resulting in Amendments to Two (2) NYMEX Iron Ore Futures and Option Contracts

Earlier today, Wednesday, January 18, 2017, The Steel Index (“TSI”) announced that it will update the specifications of its “Iron Ore 62% Fe Benchmark Index” to reflect the specifications of the spot market’s most liquid products in seaborne trade, with effect commencing on Monday, January 1, 2018.

As a result, effective Monday, January 1, 2018 for trade date Tuesday, January 2, 2018, and pending all relevant CFTC regulatory review periods, New York Mercantile Exchange, Inc. (“NYMEX” or “Exchange”) will amend references to the TSI Iron Ore 62% Fe Benchmark Index in two (2) related futures and options contracts (the “Contracts”) as noted in Table 1 below.

Table 1

Commodity Code (Clearing / CME Globex)	Contract Title	NYMEX Rulebook Chapter
TIO	Iron Ore 62% Fe, CFR China (TSI) Futures	919
ICT	Iron Ore 62% Fe, CFR China (TSI) Average Price Option	644

TSI has advised the Exchange that it has analyzed the historical price difference based on the different quality specifications. As such, the Exchange determined that a price differential should be used to adjust all outstanding futures and options positions beyond and including the January 2018 contract month that will settle against the TSI Iron Ore 62% Fe Benchmark Index specifications. The differential to be applied is \$0.27 per dry metric tonne and reflects the price difference between the current 62% Fe fines, CFR Tianjin port price assessment and the new 62% Fe fines, CFR Qingdao price assessment during the months from July 2015 to December 2016. The differential represents a one-time increase in the value of the price assessment following the change in specification.

With regard to the Iron Ore 62% Fe, CFR China (TSI) Futures contract (commodity code TIO), contract valuations will be revised on the evening of **Friday, December 29, 2017** to reflect the \$0.27 per dry metric tonne increase. Holders of long positions will be required to make an additional payment to the CME Clearing House to neutralize the value change; holders of short

positions will receive an additional payment from the CME Clearing House. Effective Monday, January 1, 2018 for trade date Tuesday, January 2, 2018, the Exchange will adjust the settlement valuations of the Contracts for all expiration months commencing with the January 2018 contract month and beyond to coincide with the underlying changes in the physical market price assessments, as outlined in Appendix A.

Please refer questions on this subject to:

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APPENDIX A

Contract Valuation and Clearing House Cash Adjustment Process

New York Mercantile Exchange, Inc. (“NYMEX” or Exchange”) has been advised that The Steel Index (“TSI”) has confirmed changes to the specifications of its “Iron Ore 62% Fe Benchmark Index”. Accordingly, commencing with the January 2018 contract month and beyond, the new underlying assessment will be reflected in NYMEX’s Iron Ore 62% Fe, CFR China (TSI) Futures and Options contracts (the “Contracts”) as provided in Table 1 below.

Table 1

Commodity Code (Clearing / CME Globex)	Contract Title	NYMEX Rulebook Chapter
TIO	Iron Ore 62% Fe, CFR China (TSI) Futures	919
ICT	Iron Ore 62% Fe, CFR China (TSI) Average Price Option	644

TSI has analyzed the historical quality premiums between the current and proposed values of the Iron Ore 62% Fe Benchmark Index. Based on the price differentials from July 2015 to December 2016, and through discussions with clients, TSI has recommended a one-time differential of \$0.27 per dry metric tonne that may be used in amending all outstanding derivatives positions commencing with the January 2018 contract month and beyond, that will settle against the new specification for TSI Iron Ore 62% Fe Benchmark Index.

The Exchange conducted client outreach and analysis of data and intends to implement the TSI recommended \$0.27 per dry metric tonne differential, between the two different specifications for Iron Ore 62% Fe Benchmark Index. NYMEX will amend the reference price and valuation of all the related futures and option contracts in Table 1 commencing with the January 2018 contract month and beyond.

With regard to the Iron Ore 62% Fe, CFR China (TSI) Futures contract (commodity code TIO), contract valuations will be revised on the evening of **Friday, December 29, 2017** to reflect the \$0.27 per dry metric tonne increase. Holders of long positions will be required to make an additional payment to the CME Clearing House to neutralize the value change; holders of short positions will receive an additional payment from the CME Clearing House.

With regard to the Iron Ore 62% Fe, CFR China (TSI) Average Price Option contract (commodity code ICT), contract valuations will be revised on the evening of **Friday, December 29, 2017** using the Exchange’s options pricing models. Option contract valuations will be assessed first using the pre-amendment underlying price, and again using the post-amendment underlying price. The difference in the option valuations in each of these scenarios will be the effective revision in the value of the option.

In the event an option contract is revalued higher, holders of long positions will be required to make an additional payment to the CME Clearing House to neutralize the value change; holders

of short positions will receive an additional payment from the CME Clearing House. In the event an option contract is revalued lower, holders of short positions will be required to make an additional payment to the CME Clearing House to neutralize the value change; holders of long positions will receive an additional payment from the CME Clearing House.

These additional payments or the cash adjustment will be processed on Tuesday, January 2, 2018 at approximately 11:00 a.m. ET (10:00 a.m. CT).