Special Executive Report

DATE: **June 6, 2011**

SER#: **5788**

SUBJECT: **Trading at Marker (TAM) Based on the London Market Close for NYMEX Light Sweet Crude Oil, New York Harbor No. 2 Heating Oil, RBOB Gasoline and Brent Crude Oil Last Day Financial Futures**

Effective trade date Monday, June 13, 2011, the New York Mercantile Exchange, Inc. (NYMEX or Exchange) will introduce Trading at Marker (TAM) based on the London market close at 4:30 p.m. London time (or 11:30 Eastern time) trading exclusively on CME Globex in the first three contract months of NYMEX Light Sweet Crude Oil, New York Harbor No. 2 Heating Oil, RBOB Gasoline and Brent Crude Oil Last Day Financial futures, and in intra-commodity spreads between the first and second, first and third and second and third contract months in those products. This will provide a valuable hedging tool that will link the U.S. and European markets more closely. TAM trading will be conducted pursuant to NYMEX Rule 524 ("Trading at Settlement ("TAS"), Trading at Marker ("TAM") and Matched Order ("MO") Transactions").

Regulatory guidance on Rule 524 may be found in today's release of NYMEX & COMEX Market Regulation Advisory Notice RA1105-4.

TAM trading is analogous to our existing Trading at Settlement (TAS) trading wherein parties will be permitted to trade at a differential that represents a not-yet-known price. TAM trading will use a marker price, whereas TAS trading uses the Exchange-determined settlement price for the applicable contract month.

For TAM trading in NYMEX Light Sweet Crude Oil, New York Harbor No. 2 Heating Oil and RBOB Gasoline futures, the marker price in the front month will be the volume weighted average price (VWAP) of outright trades on CME Globex for the one-minute period from 4:29 – 4:30 p.m. London time, rounded to the nearest tradable tick. The marker price in the second and third contract months will be based on prices implied from the VWAPs of the one-month and two-month spreads that are traded on CME Globex during the one-minute period from 4:29 – 4:30 p.m. London time, subject to volume thresholds as detailed under *Settlement Procedures* below.

For TAM trading in NYMEX Brent Crude Oil Last Day Financial futures, the marker price will represent a weighted average of trades in the ICE Brent Crude Futures Minute Marker from 4:29 – 4:30 p.m. London time.

As with TAS trading, parties will be able to enter TAM orders at the TAM price or at a differential between one and ten ticks higher or lower than the TAM price. TAM trading in these four products will be available exclusively on CME Globex.

Market participants are prohibited from initiating the entry of any TAS or TAM order into CME Globex *prior to receipt of* the security status message sent via the FIX/FAST incremental feed identifying that the group has transitioned to the pre-open state.

TAM-Eligible Products and Contract Months on CME Globex

Commodity Code on CME Globex	Product Name and Contract Months	Cleared Product
CLL	**Light Sweet Crude Oil** spot, 2nd and 3rd months and nearby/second month, second/third month and nearby/third month calendar spreads	CL
BZL	**Brent Crude Oil Last Day Financial** spot, 2nd and 3rd months and nearby/second month, second/third month and nearby/third month calendar spreads	BZ
HOL	**New York Harbor No. 2. Heating Oil** spot, 2nd and 3rd months and nearby/second month, second/third month and nearby/third month calendar spreads	HO
RBL	**RBOB Gasoline** spot, 2nd and 3rd months and nearby/second month, second/third month and nearby/third month calendar spreads	RB

Settlement Procedures

In accordance with Exchange Rule 813 (Settlement Price), the first three contract months in NYMEX Light Sweet Crude Oil, New York Harbor No. 2 Heating Oil and RBOB Gasoline will be settled by Exchange staff based solely upon CME Globex activity during the one-minute period from 4:29 – 4:30 p.m. London time.

Exchange staff will settle the front month contract at the VWAP of the outright trades executed on CME Globex during the one-minute period from 4:29 – 4:30 p.m. London time, rounded to the nearest tradable tick. The second contract month will be settled to the price implied from the VWAP of the front month/second month spreads that are traded on CME Globex during the one-minute period from 4:29 – 4:30 p.m. London time, using the front month settlement as the anchor price.

The third contract month will be settled based on prices implied from the VWAPs of the one-month (e.g. July/August) and two-month (e.g. June/August) spreads that are traded on CME Globex during the one-minute period from 4:29 – 4:30 p.m. London time provided that certain volume thresholds are met. Additionally, a weighting factor will be employed such that an 85% weighting factor is given to the price implied from the one-month spread and a 15% weighting factor is given to the price implied from the two-month spread. The formula is presented below:

$$\frac{\left(\frac{((\text{Implied Price 1} * \text{Volume1}) + (\text{Implied Price2} * \text{Volume2}))}{(\text{Volume1} + \text{Volume2})} + \frac{((\text{Implied Price1} * \text{W1}) + (\text{Implied Price2} * \text{W2}))}{(\text{W1} + \text{W2})}\right)}{2}$$

The minimum volume thresholds for NYMEX Light Sweet Crude Oil will be 200 contracts for spreads used to settle the second month and 100 contracts for spreads used to settle the third month. The corresponding thresholds for Heating Oil and RBOB will be 50 and 25.

In the event that one of the spreads does not trade during the one-minute window, but volume in the other spread meets the volume threshold, then the settlement price will be the price implied by the spread that traded. If the combined volume of the component spreads does not meet the volume threshold, the midpoint of the best bids/offers in the relevant one- and two-month spreads at 4:30:00 p.m. London time will be used to imply prices for the contract, and the settlement price for that contract will be the weighted average of the implied prices, with the one-month spread implied price receiving an 85% weighting, and the two-month spread implied price receiving a 15% weighting. The formula is presented below:

$$\frac{((\text{Implied Price1} * W1) + (\text{Implied Price2} * W2))}{(W1 + W2)}$$

Examples of the settlement methodology are presented below.

Crude Oil Example: Assume July 11 is the spot month

Month	Settlement	Basis for Settlement
N11	100.00	Volume = 4000, VWAP = **100.00** N is front month – use outright VWAP
Q11	101.00	N/Q volume = 2700; VWAP = -1.00 Spread volume > 200 – imply Q settlement from VWAP of spread: 100.00+1.00 = **101.00**
U11	101.75	N/U volume = 375; VWAP = -1.76 Q/U volume = 680; VWAP = -0.75 -U spread volume is > 100 – imply U from 85%-15% weighted VWAP of spreads: -Imply U settlement from N = 100.00 + 1.76 = 101.76 -Imply U settlement from Q = 101.00 + 0.75 = 101.75

$$\frac{\frac{((101.76 * 375) + (101.75 * 680))}{(375 + 680)} + \frac{((101.76 * 0.15) + (101.75 * 0.85))}{(0.15 + 0.85)}}{2} = \mathbf{101.75}$$

Heading Oil and RBOB Gasoline Example: Assume July 11 is the spot month

Month	Settlement	Basis for Settlement
N11	3.0000	Volume = 4000, VWAP = **3.0000** N is front month – use outright VWAP
Q11	3.0500	N/Q volume = 2700; VWAP = -0.0500 Spread volume > 200 – imply Q settlement from VWAP of spread: 3.0000+0.0500 = **3.0500**
U11	3.1000	N/U volume = 375; VWAP = -0.0500 Q/U volume = 680; VWAP = -0.1000 -U spread volume is > 100 – imply U from 85%-15% weighted VWAP of spreads: -Imply U settlement from N = 3.0000 + 0.0500 = 3.0500 -Imply U settlement from Q = 3.0500 + 0.0500 = 3.1000

$$\frac{\left(\left(\frac{(3.0500 * 375) + (3.1000 * 680)}{(375 + 680)}\right) + \left(\frac{(3.0500 * 0.15) + (3.1000 * 0.85)}{(0.15 + 0.85)}\right)\right)}{2} = \mathbf{3.0822}$$

Settlement on Last two (2) Trading Days: On the day before the spot month contract expires, both the front and second months will settle based on the VWAP of the outright CME Globex trades in the respective contracts executed between 4:29 and 4:30 p.m. London time. On these days, the next two months will settle based on the procedures outlined above.

On the day of expiration, the front month will settle based on the VWAP of the outright CME Globex trades executed between 4:29 and 4:30 p.m. London time, the second month will settle based on the VWAP of the outright CME Globex trades executed between 4:29 and 4:30 p.m. London time, and the next two months will settle based on the procedures outlined above.

In the absence of outright or spread trades during this period, the settlement price will be the best bid or best offer in the expiring contract at 4:30:00 p.m. London time, whichever is closer to the last trade price. If there is not a bid/offer pair in the expiring contract at that time, the settlement price will be the best bid or offer implied by the bid/offer in the spread at 4:30:00 p.m. London time, whichever is closer to the last outright trade price in the expiring contract.

Only bids and offers that remain active through expiration at 4:30:00 p.m. London time will be considered in these calculations. In the event there is insufficient activity to make the aforementioned calculations, staff may rely on earlier data or other available market information to determine an appropriate settlement price.

Notwithstanding the foregoing, in the event the aforementioned calculations described in this Special Executive Report cannot be made or if staff, in its sole discretion, determines that anomalous activity yields results that are not representative of the fair value of the contract, Exchange staff may determine an alternative settlement price.

Questions regarding this advisory may be directed to the following individuals:

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