



Special Executive Report

DATE: April 15, 2016

SER#: 7639

SUBJECT: IHS Energy Announces Methodology Change – Price Adjustments to Four (4) NYMEX Indonesian Sub-Bituminous Coal Futures and Option Contracts

IHS Energy announced that it will update the specifications of its “IHS McCloskey Indonesian Sub-Bituminous FOB marker” to reflect a lower and narrower range of caloric values of steam coal for inclusion into the index, with effect from May 2, 2016. Upon implementation of the methodology change, the Indonesian Sub-Bituminous index assessment will reflect the caloric value of the steam coal that is exported by the Indonesian coal mining sector to meet electricity generation demands.

As a result, effective on Monday, May 2, 2016, and pending all relevant CFTC regulatory review periods, New York Mercantile Exchange, Inc. (“NYMEX” or “Exchange”) will amend references the IHS Energy Indonesian Sub-Bituminous index in four (4) related futures and option contracts as noted in Table 1 below.

Table 1

Commodity Code (Clearing / CME Globex)	Contract Title	NYMEX Rulebook Chapter
MCC	Indonesian Coal (McCloskey sub-bituminous) Futures	294
ICA	Indonesian Coal (McCloskey sub-bituminous) Average Price Options	1124
IC4	Indonesian Coal (McCloskey sub-bituminous) Quarterly Options	1132
ICC	Indonesian Coal (McCloskey sub-bituminous) Calendar Options	1133

IHS Energy 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 positions beyond and including the May-2016 contract month that will settle against the IHS Energy specifications prior to May 2, 2016 for Indonesian Sub-Bituminous index. The differential to be applied is \$1.04/metric ton, and reflects the price difference between the old 4,900 kilo-calorie net-as-received (kcal NAR) assessment and the new 4,700 kcal NAR assessment for the Indonesian Sub-Bituminous FOB marker during the months from January to March 2016.

Currently, only the Indonesian Coal (McCloskey sub-bituminous) Futures contract (Commodity Code: MMC) has open interest in commencing with the May 2016 contract month and beyond. Effective Sunday, May 1, 2016 for trade date Monday, May 2, 2016, the Exchange will adjust the settlement valuations of its IHS Energy-related sub-bituminous coal futures contract for all expiration months

commencing with the May-2016 contract month and beyond to coincide with the underlying changes in the physical market price assessments, pursuant to the criterion 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 IHS Energy has confirmed changes to the specifications of its Indonesian sub-bituminous Coal assessment. Accordingly, commencing with the May 2016 contract month and beyond, the new underlying assessment will be reflected in the Indonesian Coal (McCloskey sub-bituminous) Futures contract. Table 1 provides a list of NYMEX contracts. Currently, only the Indonesian Coal (McCloskey sub-bituminous) Futures contract has open interest in commencing with the May 2016 contract month and beyond.

IHS Energy has analyzed the historical quality premiums between the 4,900 kc NAR and 4,700 kc NAR calorific values of the Indonesian sub-bituminous coal for the past 3 years from January 2013 to March 2016. Based on the price differentials from January 2016 to March 2016, and through discussions with clients, IHS Energy has recommended a one-time differential of \$1.04/metric ton that may be used in amending all outstanding derivatives positions commencing with the May 2016 contract month and beyond, that will settle against the new specification for Indonesian sub-bituminous Coal.

The Exchange also conducted its own client outreach and independent analysis of the data, and concluded that the IHS Energy-recommended \$1.04/metric ton differential, between the two different specifications for Indonesian Sub-bituminous Coal, represents an accurate value of the specification differences. Therefore, NYMEX will amend the reference price and valuation of all the related futures and option contracts in Table 1 commencing with the May 2016 contract month and beyond.

The Exchange will determine the impact on contract valuation effective for trade date Monday, May 2, 2016, based on pricing assessments made at the close of business on Friday, April 29, 2016. On that date, the end-of-the-day settlement prices for the four contracts listed in Table 1 will reflect the new specification for the Indonesian Coal (McCloskey sub-bituminous) Futures. Following settlement, the Exchange will re-calculate the prices of the contracts starting with May-2016 and beyond using the \$1.04/metric ton premium to reflect the effect of the specification change.

The CME Clearing House will also calculate the cash adjustments resulting from the contract value change. Accordingly, holders of **short** positions will be required to **make** additional payments to the Clearing House in order to neutralize the economic impact of the contracts' lower value. Holders of **long** positions will be required to **take** additional payments from the Clearing House in order to neutralize the economic impact of the contracts' lower value on the corresponding side. These additional payments or the cash adjustment will be processed on Tuesday, May 3, 2016 at approximately 11:00 a.m. ET (10:00 a.m. CT) and intra-day prices on that day will represent the new IHS Energy specification.