



Special Executive Report

DATE: October 8, 2015

SER#: 7472R

SUBJECT: **Close-Out and Re-Establishment of Open Interest of European Union Allowance Futures Contracts from NYMEX to CME Europe**

(This SER supersedes SER 7472 dated September 28, 2015 and extends the deadline by which NYMEX EUA Futures position holders must provide a firm commitment to "opt-in" to the migration of their EUA Futures positions. The deadline has been extended from October 9, 2015 to October 16, 2015. No other changes are being made to the original SER.)

New York Mercantile Exchange, Inc. ("NYMEX" or "Exchange") intends to effectuate the close-out of opted-in NYMEX In Delivery Month European Union Allowance futures ("EUA Futures")¹ positions and the re-establishment of equivalent positions on CME Europe Limited ("CME"). The close-out and re-establishment ("CORE process") is discussed below and was initially proposed in CME Group Special Executive Report 7450 (dated September 16, 2015).² The Exchange will implement the CORE process only after the expiration of all relevant regulatory review periods and upon obtaining all required regulatory approvals in the United States and the United Kingdom ("UK"). The CORE process is currently scheduled to commence on October 30, 2015.

Overview

CME has sought approval from its primary regulator, the UK's Financial Conduct Authority ("FCA"), to list and trade emission allowance futures contracts. At the same time, CME's clearinghouse, CME Clearing Europe ("CMECE") is seeking regulatory approval from its primary regulator, the Bank of England ("BOE"), to clear emission allowance futures contracts. As of this writing, CME and CMECE are awaiting the issuance of such approval to list and clear these contracts, which is required in order to facilitate the CORE process.

In anticipation of FCA and BOE approval, the Exchange is herein notifying Clearing Members and market participants of the operational procedures that the Exchange intends to implement to close out opted-in EUA Futures positions on NYMEX and to re-establish equivalent positions on CME. The Exchange has submitted this notice to the Commodity Futures Trading Commission ("CFTC" or "Commission") in accordance with the requirements of Commission Regulation 40.6(a).

Although participation in the CORE process is voluntary, the Exchange believes that the overwhelming majority of NYMEX EUA Futures position holders prefer to maintain their current EUA positions as equivalent contracts listed on CME and cleared by CMECE and therefore support the Exchange facilitating the migration of open interest through the CORE process. Market participants often trade associated products (e.g., European Power or European Natural Gas contracts) alongside their European

¹ CME Globex Code: 6T; Clearing Code: EAF; NYMEX Rulebook Chapter 1250.

² References herein to NYMEX EUA Futures also include the NYMEX Daily European Union Allowance (EUA) futures contract (CME Globex/Clearing Code: EUL; NYMEX Rulebook Chapter 1260). As of this writing, there is no open interest in the daily contract.

allowance contracts as part of wider risk management strategies, and CMEE has recently launched a suite of such energy contracts. Market participants have informed the Exchange that they envisage that a migration of the EUA Futures open interest from NYMEX to CMEE and CMECE could significantly increase the number of active traders and enhance liquidity.

Because only a balanced book of positions will be re-established on CMEE and CMECE, NYMEX EUA Futures position holders will be requested to provide a firm commitment to "opt-in" to the migration of their EUA Futures positions by no later than October 16, 2015 in a format determined by the Exchange (please see attachment). In the event of an imbalance between opted-in short and long positions, a pro-rata calculation will be used to re-establish a balanced-book of open positions on CMEE/CMECE. By way of a hypothetical pro-rata example, if there are a total of three traders in the entire NYMEX EUA futures market (one short and two long position holders) and the total open interest is 50 contracts, if the short position holder only chooses to opt-in 40 contracts of its 50 contracts while the two long position holders opt-in 20 and 30 contracts, respectively, 16 and 24 long positions will be accommodated and migrated to CMEE/CMECE.³

Subsequent to the CORE process, such opted-in EUA Futures positions will cease to be subject to the rules of NYMEX and cleared by CME Inc. ("CME") and instead will be subject to the rules of CMEE and cleared by CMECE.

To the extent participants choose not to opt-in to the CORE process, or positions are not migrated to ensure that only a balanced book of positions is migrated (as described in the example above), open positions in such participants' EUA Futures contracts will continue to be listed and traded on NYMEX and cleared by CME.

Direction to Clearing Members

To ensure consistency with precedent and a commercially viable process for migrating open interest, the Exchange hereby directs NYMEX Clearing Members carrying open positions in EUA Futures (or whose customers seek to initiate new EUA Futures positions on NYMEX) to:

1. Notify their EUA Futures customers of the availability of the CORE process.
2. Deliver an Exchange-provided Opt-In Form for opting into the CORE process to EUA Futures position holders on the same day that the Clearing Member receives such form from the Exchange.
3. Notify EUA Futures position holders that they may opt-in to the CORE process by signing the Exchange-provided Opt-In Form and submitting the form's signature page and Appendixes to NYMEX no later than October 16, 2015.

On October 30, 2015, the Exchange will direct NYMEX Clearing Members carrying opted-in open positions in EUA Futures to:

1. Execute a "back office" bookkeeping entry for each EUA contract involving CME (in its capacity as the clearinghouse for NYMEX) and the Clearing Member to close out opted-in positions in NYMEX EUA Futures by placing CME (in its capacity as the clearinghouse for NYMEX) opposite open opted-in positions in each account.
2. Execute a "back office" bookkeeping entry involving the relevant CMECE Clearing Member and the NYMEX Clearing Member, in which the NYMEX Clearing Member receives a position from the CMECE Clearing Member on the same side of the market and in the same quantity as the original position in opted-in EUA Futures previously carried on NYMEX as of the close of trading on October 30, 2015 (with respect to any NYMEX EUA Futures position holder that continues to maintain funds with the NYMEX Clearing Member in preference to clearing directly through a CMECE Clearing Member).

³ Forty short contracts divided by 50 long contracts is .8; the product of 20 long contracts opted-in and .8 is 16 long contracts; the product of 30 long contracts opted-in and .8 is 24 long contracts; and the sum of 16 and 24 long contracts is 40 long contracts migrated to CMEE/CMECE, which balances the 40 short contracts migrated pursuant to the short position-holder's opt-in.

3. Transfer participating customers' segregated funds from the futures account in which the customer's funds were carried to a CFTC Regulation 30.7 account for foreign futures and options (with respect to any NYMEX EUA Futures position holder that continues to maintain funds with the NYMEX Clearing Member in preference to clearing directly through a CMECE Clearing Member).

By way of example, if an FCM carries ten customer accounts, each with an opted-in NYMEX EUA Futures position, the Exchange and the FCM would record a bookkeeping entry to close out each such customer position. Likewise, each CMECE Clearing Member would execute a "back office" bookkeeping entry to establish the equivalent of each closed out EUA Futures position with CMEE/CMECE. Concurrently, the books and records of the carrying FCM would reflect a bookkeeping entry involving a CMECE Clearing Member and the FCM in which the FCM receives positions from the CMECE Clearing Member on the same side of the market and in the same quantity as its former positions in EUA Futures on NYMEX. Any funds in the house account of NYMEX Clearing Members will be returned to them by CME.

In summary, the opted-in positions in the re-established EUA Futures will be closed out on NYMEX and re-established as contracts listed on CMEE and cleared by CMECE. The opening price of the EUA Futures contract listed on CMEE and cleared by CMECE will be the closing price of the EUA Futures contract on NYMEX on October 30, 2015. The opted-in CMEE positions will thereafter be governed by English law and their trading will be subject to the rules of CMEE – a UK exchange regulated by the FCA – and their clearing will be subject to the rules of CMECE – a UK clearinghouse and EMIR authorized CCP supervised by the BOE.

Remarks

NYMEX Clearing Members and their EUA Futures customers should note the following:

1. After October 30, 2015, the trading of opted-in and migrated EUA Futures positions will occur only on CMEE, which is an FCA-regulated exchange, and, unlike NYMEX, is not a CFTC-regulated designated contract market. For the avoidance of doubt, opted-out positions will continue to be tradable on NYMEX.
2. The rules governing the trading and clearing of migrated contracts will be those of CMEE and CMECE, not those of NYMEX and CME, and the trading and clearing of such contracts will be subject to English law, not U.S. law.
3. For customers maintaining funds at a NYMEX Clearing Member in preference to clearing directly through a CMECE Clearing Member, all customer margin funds supporting migrated positions will be held by FCMs in CFTC Regulation 30.7 accounts. To the extent that such funds are transferred by the FCM to its local affiliate CMECE Clearing Member or other UK entity, these funds may be subject to applicable local client money protections. The Exchange would suggest that position holders speak to their legal advisers as to the potential effect of the transfer in this regard.
4. It is possible that for some NYMEX Clearing Members and their customers the tax treatment of opted-in EUA futures will be affected. Accordingly, NYMEX Clearing Members and their customers are alerted to take the advice of their tax advisors as to the potential effect of the migration of the opted-in EUA futures.
5. The close-out and re-establishment of opted-in EUA Futures positions will occur as described above unless bespoke arrangements are requested and accommodated.
6. Opting-in to the CORE process is voluntary, and NYMEX Clearing Members and their customers can maintain their positions on NYMEX through and after, or liquidate or offset such open positions prior to and after, October 30, 2015.
7. While best efforts will be made to close-out and re-establish all opted-in positions, it may be necessary, in order to ensure that a balanced book of positions is migrated to CMECE, for certain opted-in positions to remain on NYMEX, or to be liquidated, instead of being migrated. In opting-in to the CORE process, position holders will be deemed to agree to this potential alternative

treatment of their positions. If such action is necessary, all affected market participants holding such opted-in positions will be treated in a fair manner as described above.

For additional information, please contact:

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Attachment



Opt-In Form

DATE: 28 September 2015

SUBJECT: Opt-In to Migration of European Union Allowance Futures Open Interest from NYMEX to CME Europe

As described in CME Group Special Executive Reports 7450 (dated September 16, 2015) and 7472 (dated September 28, 2015):

CME Europe Limited (CMEE) intends to list a Daily and a Monthly European Union Allowance (EUA) Futures contract. The CMEE EUA Futures contracts will be cleared by CME Clearing Europe Limited (CMECE).

The CMEE EUA Futures contracts will be dual-listed with the existing NYMEX Daily EUA Futures contract (Globex/ClearPort code EUL) and the existing NYMEX In Delivery Month EUA Futures contract (Globex code EAF/ClearPort code 6T).

CME Group intends to administer a voluntary “position close-out and re-establishment” process (CORE process) to assist NYMEX EUA Futures position holders migrate their open positions in EUA Futures from NYMEX to CMEE/CMECE. The CORE process will take place during the weekend of 30 October 2015.

The CORE process will be made available only to NYMEX EUA Futures position holders that opt-in to the process.

Although we expect the overwhelming number of NYMEX EUA Futures position holders to participate in the CORE process, it is possible that not all opted-in positions can be accommodated and migrated to CMEE/CMECE, which could result in whole or partial opted-in positions remaining on NYMEX. A pro-rata allocation mechanism will be used to determine which positions are ultimately closed-out and re-established.

NYMEX EUA Futures position holders that intend to participate in the CORE process must opt-in by providing the signature page along with Appendixes 1 and 2 to NYMEX no later than 16 October 2015.

* The CORE process is being implemented pursuant to NYMEX and CME Inc. procedures certified with the Commodity Futures Trading Commission. All NYMEX and CME Inc. rules continue to apply to NYMEX EUA Futures and the CORE process until migration to CMEE/CMECE is accomplished.

Signature Page

Authorised Signatory from Position Holder:			
PRINT NAME	SIGNATURE	MEMBER ID (IF APPLICABLE)	DATE

The signatory to this form must be and will be deemed to be authorized to opt-in on behalf of the NYMEX EUA Futures position holder. By opting into the CORE process, you authorize NYMEX and CME Inc. to direct your FCM to take all necessary steps in relation to the closing-out of EUA Futures positions on NYMEX and the re-establishing of EUA Futures positions on CMEE/CMECE.

Appendix 1 – Positions to be Migrated

In order to participate in the CORE process as a NYMEX EUA position holder, you must opt-in by indicating which open interest from the below list you wish to close out (on NYMEX) and re-establish (on CME/CMECE). **If the opt-in table below is not marked for a contract in which you have open interest on NYMEX, it will be assumed that you are NOT participating in the CORE process for that contract:**

Contract	Period	Opt-in (please tick)	Origin (Indicate House / Client)	Long Positions to be Migrated	Short Positions to be Migrated	Indicate which CMECE Clearing Member positions will migrate to
In Delivery Month European Union Allowance (EUA) Futures (6T)	201512	<input type="checkbox"/>				
In Delivery Month European Union Allowance (EUA) Futures (6T)	201612	<input type="checkbox"/>				
In Delivery Month European Union Allowance (EUA) Futures (6T)	201712	<input type="checkbox"/>				
In Delivery Month European Union Allowance (EUA) Futures (6T)	201812	<input type="checkbox"/>				
Daily European Union Allowance (EUA) Futures (EUL)	2015**	<input type="checkbox"/>				

Notes:

- (1) If you want all positions from all Account types to migrate for a particular contract, please input 'ALL' to the Origin and Long/Short Position boxes for that contract.
- (2) If you only want a select number of positions to migrate for a particular contract, please specify in the boxes for that contract which positions held in which Account types you are opting-in to the CORE process.

Appendix 2 – Information Regarding Trading and Clearing on CMEE/CMECE

If you intend to establish a direct relationship with a CMECE clearing member (as opposed to maintaining your account at your current NYMEX clearing member and clearing CMEE/CMECE EUA Futures contracts indirectly through that FCM), you must identify the relevant CMECE clearing member below:

Please identify the relevant CMECE clearing member (leave blank if you will continue maintaining your account at your current NYMEX clearing member)

Please also confirm how you intend to access CMEE for trading purposes following completion of the CORE process:

- through an existing CMEE Member

Yes No

If Yes, please provide the name of the CMEE Member below:

- by becoming a Non-Clearing Member of CMEE

Yes No

- by becoming a Clearing Member of CMEE

Yes No