**SUBMISSION COVER SHEET**

***IMPORTANT*: Check box if Confidential Treatment is requested** ☐

**Registered Entity Identifier Code (optional): 17-127**

**Organization: Commodity Exchange, Inc. ("COMEX")**

**Filing as a:** ☒ **DCM** ☐ **SEF** ☐ **DCO** ☐ **SDR**

**Please note - only ONE choice allowed.**

**Filing Date (mm/dd/yy): 04/06/17 Filing Description: Amendments to the Zinc Futures Contract to Include Duty Unpaid Zinc to be Eligible for Delivery**

**SPECIFY FILING TYPE**

**Please note only ONE choice allowed per Submission.**

**Organization Rules and Rule Amendments**

| | | |
|---|---|---|
| ☐ | Certification | § 40.6(a) |
| ☐ | Approval | § 40.5(a) |
| ☐ | Notification | § 40.6(d) |
| ☐ | Advance Notice of SIDCO Rule Change | § 40.10(a) |
| ☐ | SIDCO Emergency Rule Change | § 40.10(h) |

**Rule Numbers:**

**New Product** **Please note only ONE product per Submission.**

| | | |
|---|---|---|
| ☐ | Certification | § 40.2(a) |
| ☐ | Certification Security Futures | § 41.23(a) |
| ☐ | Certification Swap Class | § 40.2(d) |
| ☐ | Approval | § 40.3(a) |
| ☐ | Approval Security Futures | § 41.23(b) |
| ☐ | Novel Derivative Product Notification | § 40.12(a) |
| ☐ | Swap Submission | § 39.5 |

**Official Product Name:**

**Product Terms and Conditions (product related Rules and Rule Amendments)**

| | | |
|---|---|---|
| ☒ | Certification | § 40.6(a) |
| ☐ | Certification Made Available to Trade Determination | § 40.6(a) |
| ☐ | Certification Security Futures | § 41.24(a) |
| ☐ | Delisting (No Open Interest) | § 40.6(a) |
| ☐ | Approval | § 40.5(a) |
| ☐ | Approval Made Available to Trade Determination | § 40.5(a) |
| ☐ | Approval Security Futures | § 41.24(c) |
| ☐ | Approval Amendments to enumerated agricultural products | § 40.4(a), § 40.5(a) |
| ☐ | "Non-Material Agricultural Rule Change" | § 40.4(b)(5) |
| ☐ | Notification | § 40.6(d) |

**Official Name(s) of Product(s) Affected**: See filing.
**Rule Numbers:** See filing.

**Christopher Bowen**
Managing Director and Chief Regulatory Counsel
Legal Department

April 6, 2017

**VIA ELECTRONIC PORTAL**

Mr. Christopher J. Kirkpatrick
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

**Re: CFTC Regulation 40.6(a) Certification. Notification Regarding Amendments to the Zinc Futures Contract to Include Duty Unpaid Zinc Eligible for Delivery. COMEX Submission No. 17-127**

Dear Mr. Kirkpatrick:

Commodity Exchange, Inc. ("COMEX" or "Exchange") is notifying the Commodity Futures Trading Commission ("CFTC" or "Commission") that it is self-certifying amendments to the Zinc Futures (Commodity Code: ZNC; Rulebook Chapter: 186) contract (the "Contract") effective Sunday, April 23, 2017 for trade date Monday, April 24, 2017 and commencing with the May 2017 contract month and beyond.

Currently, only duty paid zinc is eligible for delivery against the Contract. The Exchange is amending Rule 186101. ("Contract Specifications") of the Contract which will provide that duty unpaid zinc, which satisfies the specifications of the Contract, shall also be eligible for delivery against the Contract. Appendix A attached provides amendments to Rule 186101. in blackline format.

The Exchange is providing updated deliverable supply analysis in Appendix B attached. As a result of the review of deliverable supply, the Exchange is also amending the spot month position limit for the Contract from 200 to 150 contracts.

The Contract is listed for trading via CME Globex and for submission for clearing through CME ClearPort.

The Exchange reviewed the designated contract market core principles ("Core Principles") as set forth in the Commodity Exchange Act ("CEA") and staff identified that the amendments may have some bearing on the following Core Principles:

- Contracts Not Readily Susceptible to Manipulation: The Contract is not readily subject to manipulation as a result of the deep liquidity and robustness of the underlying cash and futures market.

- Position Limitations or Accountability: The speculative position limits for the Contract as demonstrated in this submission are consistent with the Commission's guidance.

- Daily Publication of Trading Information: Trading volume, open interest and price information will be published daily on the Exchange's website and via quote vendors.

- Availability of General Information: The Exchange will amend the NYMEX/COMEX rulebook accordingly on the effective date which is publically available on the CME Group website. In addition, the Exchange will publish a Special Executive Report ("SER") to advise the marketplace of these amendments. The SER will also be posted on the CME Group website.

300 Vesey Street New York, NY 10282 T 212 299 2200 F 212 299 2299 christopher.bowen@cmegroup.com cmegroup.com

Pursuant to Section 5c(c) of the Act and CFTC Regulation 40.6(a), the Exchange hereby certifies that the amendments comply with the Act, including regulations under the Act. There were no substantive opposing views to these amendments.

The Exchange certifies that this submission has been concurrently posted on the Exchange's website at http://www.cmegroup.com/market-regulation/rule-filings.html.

Should you have any questions concerning the above, please contact the undersigned at (212) 299-2200 or via e-mail at CMEGSubmissionInquiry@cmegroup.com.

Sincerely,

/s/ Christopher Bowen
Managing Director and Chief Regulatory Counsel

Attachments: Appendix A – Cash Market Overview and Analysis of Deliverable Supply
Appendix B – Amendments to COMEX Rule 186101. (blackline format)
Appendix C – Position Limit, Position Accountability, and Reportable Level Table in Chapter 5 of the COMEX Rulebook (attached under separate cover)

# Appendix A

## CASH MARKET OVERVIEW

Zinc is a natural component of the Earth's crust and an integral part of the environment. Zinc is present is rock, soil, air, water, and the biosphere. Zinc ore deposits are widely spread throughout the world. Zinc ores are extracted in more than fifty countries including China, Australia, Peru, European nations, and Canada. Zinc is usually associated with lead, copper, and aluminum as well as gold and silver[1].

Centuries before zinc was discovered in the metallic form, its ores were used for making brass and zinc compounds for medicinal purposes. Zinc compounds were in the ores smelted certainly as early as 200 B.C. to obtain copper and which gave alloys of copper and zinc – the brass family. Zinc was first recognized in India as a new metal in the mid-14th century – the 8th metal known to man at the time. By the 16th century, it was recognized in Europe and the first European zinc smelter was established in the United Kingdom. Technological improvement in the smelting processes led to new production throughout Germany and other parts of Europe. In 1850, zinc production started in the United States[2].

Refined zinc is bluish white when freshly cast. It is hard and brittle at most temperatures and has relatively low melting and boiling points. On exposure to air, it develops a thin gray oxide film (patina), which inhibits deeper oxidation (corrosion) of the metal. The metal's resistance to corrosion is an important characteristic in its use.

Zinc is currently the fourth most widely consumed metal in the world after iron, aluminum, and copper. It has strong anticorrosive properties and bonds well with other metals. Consequently, about one-half of the zinc that is produced is used in zinc galvanizing, which is the process of adding thin layers of zinc to iron or steel to prevent rusting. Zinc is also used as an alloy combining with copper to form brass and with other metals to form materials used in automobiles, electrical components, and household fixtures. Zinc is also important for health in maintaining proper growth and development in humans, animals, and plants[3].

### SUPPLEMENTAL MARKET INFORMATION
### Production and Consumption

Global zinc mine production was 13.4 million metric tons in 2015, relatively unchanged from 2014[4]. Based on data from The United States Geological Survey (USGS), mine production was led by Chile, Australia and Peru as detailed in Table 1. According to the International Lead and Zinc Study Group (ILZSG), 50% of global zinc production is used for galvanizing to prevent steel from corrosion as illustrated in Chart 1. Approximately 17% is used in alloys to supply the die casting industry and an additional 17% is used in brass and bronze production. The remainder is used in zinc semi-manufacturing applications such as roofing and piping or consumed in chemical compounds such as zinc oxide and zinc sulfate[5].

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[1] International Zinc Association http://www.zinc.org/basics/

[2] International Zinc Association http://www.zinc.org/basics/

[3] United States Geological Survey Fact Sheet (reproduction) http://geology.com/usgs/uses-of-zinc/

[4] United States Geological Survey https://minerals.usgs.gov/minerals/pubs/commodity/zinc/mcs-2016-zinc.pdf

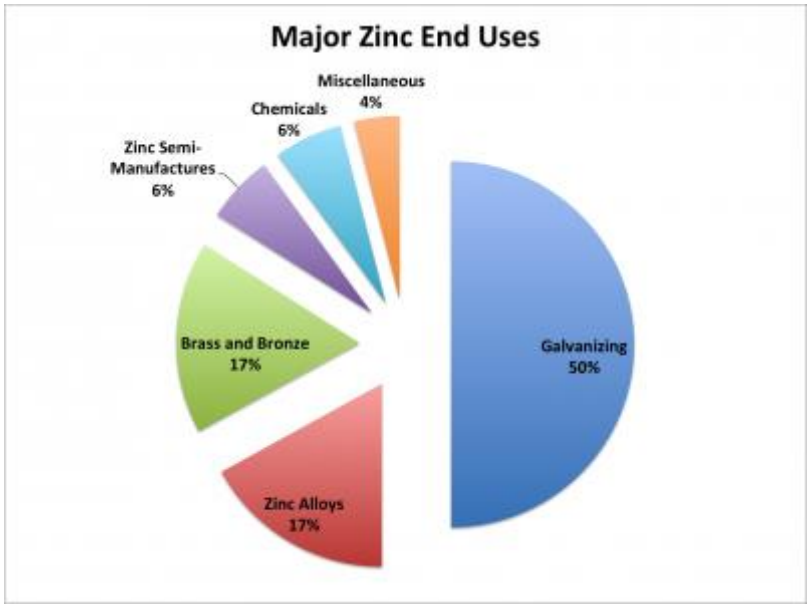
[5] International Lead and Zinc Study Group http://www.ilzsg.org/static/enduses.aspx?from=2

**Table 1. World Mine Production by Country**

| **World Mine Production** | | |
|---|---|---|
| **Country** | **2014** | **2015 (est.)** |
| United States | 832 | 850 |
| Australia | 1,560 | 1,580 |
| Bolivia | 449 | 430 |
| Canada | 353 | 300 |
| Chile | 4,930 | 4,900 |
| India | 706 | 830 |
| Ireland | 283 | 230 |
| Kazakhstan | 345 | 340 |
| Mexico | 660 | 660 |
| Peru | 1,320 | 1,370 |
| Other Countries | 1,860 | 1,870 |
| **Total** | **13,300** | **13,400** |

**Source: United States Geological Survey (USGS)**

**Chart 1. Major Zinc End Uses**




**Source: International Lead and Zinc Study Group (ILZSG)**

In the United States, the value of mined zinc in 2015 (based on zinc contained in concentrate) was approximately $1.78 billion. Zinc was mined in five states at fifteen mines operated by four companies. Of the total reported zinc consumed in the U.S., 80% was used in galvanizing, 6% in brass and bronze, 5% in zinc alloys, and 9% for other uses. Domestic zinc production increased slightly in 2015 compared to 2014 mostly attributed to the reopening of the Pend Oreille Mine in Washington[6].

## ANALYSIS OF DELIVERABLE SUPPLY

The Commission defines deliverable supply as the quantity of the commodity meeting a derivative contract's delivery specifications that can reasonably be expected to be readily available to short traders and saleable by long traders at its market value in normal cash marketing channels at the derivative contract's delivery points during the specified delivery period, barring abnormal movement in interstate commerce[7].

Zinc is either produced in the U.S. or imported into the U.S. According to the data provided by the United States Geological Survey (USGS) in Table 2 below, production of zinc in the United States in 2014 totaled 1.01 million metric tons (MT) which includes zinc mined from concentrate and zinc refined by primary and secondary smelters. Imports for consumption in terms of ore and concentrate have decreased dramatically over the past three years as U.S. mine production has increased.

**Table 2. Zinc Salient Statistics[8]**

| | | 2013 | 2014 | 2015 (est.) |
|---|---|---|---|---|
| | | | | |
| **Production** | Mine (zinc from concentrate) | 784,000 MT | 832,000 MT | 850,000 MT |
| | Primary/Secondary Smelters | 233,000 MT | 180,000 MT | 175,000 MT |
| **Consumption** | Refined zinc | 935,000 MT | 965,000 MT | 960,000 MT |
| | | | | |
| **Imports for Consumption** | Refined zinc | 713,000 MT | 805,000 MT | 800,000 MT |
| | | | | |
| **Exports** | Ore and concentrate | 669,000 MT | 644,000 MT | 740,000 MT |
| | Refined | 12,000 MT | 20,000 MT | 15,000 MT |

**Source: United States Geological Survey (USGS)**

In its analysis of deliverable supply, the Exchange has determined to include warehouse stocks of zinc conforming to the Exchange contract specifications for Zinc Futures. Following the rule amendment, metal that is either duty paid zinc or duty unpaid zinc shall be considered eligible for delivery against the Zinc Futures contact. In addition, with the implementation of this amendment, only Free-Trade-Zone (FTZ) zinc warehouses, as licensed by the U.S. Customs and Border Protection, are approved by the Exchange for the storage and delivery of zinc against a COMEX zinc warrant. In all cases, delivery will

[6] United States Geological Survey https://minerals.usgs.gov/minerals/pubs/commodity/zinc/mcs-2016-zinc.pdf

[7] See Appendix C to 17 CFR part 38

[8] United States Geological Survey https://minerals.usgs.gov/minerals/pubs/commodity/zinc/mcs-2016-zinc.pdf

occur at the settlement price on the day the Notice of Intention to Deliver is posted, without any modification to reflect duty paid or duty unpaid status. This revised process is consistent with the treatment on other exchanges, where both duty paid and duty unpaid metal can be delivered into a warehouse for delivery against a contract. This approach provides flexibility to the delivery choices available to the seller.

Material that is duty paid is homogeneous to material that is duty unpaid with the Exchange-approved FTZ warehouse. Any duty that has been paid forms part of the cost basis of the metal, but does not affect the physical nature of the metal or its value to a buyer. Any difference in cost basis should not be considered as a factor to separate the material in its eligibility to be delivered against a contract. Following the rule amendment, the contract will continue to require delivery of metal at the prevailing delivery price. As with the current duty paid contract, a seller may perceive that a particular lot of metal commands a premium to the market, or may wish this were so. This belief may influence their choice of the specific lot to take to delivery, but in itself this is a belief that has not been tested in the market.

As both duty paid and duty unpaid material is eligible for delivery, the Exchange has determined to include warehouse stocks that are both duty paid and duty unpaid, and conform to Exchange specifications in its analysis of deliverable supply. In the US, the amount of duty that would be payable on material entering the country depends on various factors including country of origin, declared value, destination (Free Trade Zone), and commodity being imported. In some cases, the amount of duty payable is zero. This is also the case for material manufactured in the US. Where there are eligible warehouse stocks of material that has had an amount of duty prepaid, this material is eligible for delivery at the unmodified settlement price, and is consistent with eligible stocks for which no duty has been paid or for which no duty is required. Therefore, all stocks of either duty paid or duty unpaid status shall be considered eligible in the assessment of deliverable supply.

As noted above, warehouses approved for the storage of zinc for delivery against the Zinc Futures contract must be located in a Free Trade Zone (FTZ). This requirement is necessary in order for the approved warehouses to be able to accept and store duty unpaid zinc.

**COMEX Warehouse Stocks**

As a physically delivered metal futures contract and in accordance with Appendix C of Part 38, the deliverable supply will be based on the inventory levels of zinc stocks residing in Exchange approved warehouses. The warehouses that are approved for storage of zinc are C. Steinweg (Baltimore), Inc. (Baltimore), Henry Bath LLC (New Orleans), Dearborn Distribution Services (Detroit area), Engelhart Warehousing (Owensboro), Access World (New Orleans, and Owensboro), Worldwide Warehousing Solutions (New Orleans), and Metal Ox (Detroit).

**Inventory and Capacity of Exchange Approved Warehouses**

Table 3 below provides the inventory levels of zinc currently stored at Exchange approved warehouses and the total capacity of those warehouses in each location. The Exchange determined to only include material currently in store at Exchange approved warehouses as the basis of deliverable supply for Zinc Futures. While there is zinc meeting the specifications of the Zinc Futures contract stored within close proximity to Exchange approved warehouses, due to load-out queues potentially preventing such zinc from moving into Exchange approved warehouses within the delivery month, the Exchange determined not to include such zinc as part of its deliverable supply.

| Location | Capacity (MT) | Zinc Inventory at Exchange-approved Warehouses (MT) - duty paid -as of 3/28/17 | Zinc Inventory at Exchange-approved Warehouses (in contract units) - duty paid - as of 3/28/17 | Zinc Inventory at Exchange-approved Warehouses (MT) - duty unpaid -as of 3/28/17 | Zinc Inventory at Exchange-approved Warehouses (in contract units) - duty paid - as of 3/28/17 |
|---|---|---|---|---|---|
| **Detroit** | 43,500 | 916 | 37 | 0 | 0 |
| **Baltimore** | 10,400 | 0 | 0 | 0 | 0 |
| **New Orleans** | 81,200 | 9,340 | 374 | 5,100 | 204 |
| **Owensboro** | 63,000 | 0 | 0 | 0 | 0 |
| | **198,100** | **10,256** | **411** | **5,100** | **204** |

Based on the above analysis, it is estimated that the deliverable supply for the Zinc Futures contract to be 615 futures contract equivalents based on the total inventory in the Exchange approved warehouses. The spot month position limit of 150 contracts represents approximately 24.39% of deliverable supply at Exchange approved warehouses.

# APPENDIX B

## COMEX Rulebook

(additions are **underscored**)

### Chapter 186
### Zinc Futures

**186101. CONTRACT SPECIFICATIONS**

The contract for delivery on futures contract shall be twenty five metric tons (25 MT) of zinc with a weight tolerance of 2% either higher or lower and must be an approved brand. Zinc meeting all of the following specifications shall be deliverable in satisfaction of futures contract delivery obligations under this rule:

Eligible zinc must consist of special high grade zinc of 99.995% purity and meeting the chemical composition of either ASTM B6-12 (Standard Specification for Zinc), BS EN 1179:2003 (Zinc and Zinc Alloys), ISO 752:2004 (Zinc ingots), or GB/T 470-2008 (Zinc ingots). Zinc being placed on warrant must be accompanied by a Certificate of Analysis. The Certificate of Analysis shall indicate the brand and the chemical composition of the zinc. If the aforementioned standards adopt a change in the standard specifications for the special high grade zinc and such change is adopted and confirmed by the Exchange, zinc conforming to the change so adopted, as well as zinc conforming to the previous specifications shall have been placed in a Warehouse prior to the date of the adoption and confirmation by the Exchange of the new specifications.

**Eligible zinc shall be either duty paid or duty unpaid.**

Each warrant shall consist of zinc from one producer and of one brand and shall consist of ingots of one shape and size unless different shapes and sizes are needed for bundle stability. Each bundle shall not exceed 1.5 metric tons. The brand and grade reference must be marked on each ingot or each bundle must have a durable label indicating the brand and grade reference. The cast number must be marked on the bundle label, the top surface of the bundle or each ingot within the bundle.

Eligible zinc must consist of any of the Exchange's approved brand marks, as provided in Chapter 7, current at the date of delivery of the contract.

The zinc must be weighed by an approved weighmaster. A weight certificate shall be issued by the approved weighmaster

Warehouse must declare that the zinc meets the specification for delivery in fulfillment of a Zinc futures contract. Upon request from the warehouse, the seller's clearing member shall provide verification that the zinc is of an approved brand meeting the specification of the contract.

The electronic certificate shall reference a signed declaration of the warehouse, as to the origin of the zinc and the grade thereof; such declaration to be in the following form and maintained on file at the warehouse.

*This is to certify that the brand of zinc covered by Warrant #..... issued by ..... (Warehouse) is the product of ..... (Producer) an approved refiner for delivery of zinc against the Commodity Exchange, Inc., Zinc futures contract and conforming to the specifications pursuant to the rules of the Exchange.*

Any insurance coverage for registered zinc shall be the responsibility of the warrant holder.

# Appendix C

## Position Limit, Position Accountability, and Reportable Level Table in Chapter 5 of the COMEX Rulebook

(attached under separate cover)