SUBMISSION COVER SHEET

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

Registered Entity Identifier Code (optional): <u>18-271</u>

Organization: <u>New York Mercantile Exchange, Inc. ("NYMEX")</u>

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

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): <u>08/08/18</u> Filing Description: <u>Initial Listing of the LNG Japan/Korea Marker (Platts) Average Price Option Contract</u>

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

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:
Rule Numbers:

Christopher Bowen
Managing Director and Chief Regulatory Counsel
Legal Department

August 8, 2018

VIA ELECTRONIC PORTAL

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

Re: CFTC Regulation 40.2(a) Certification. Notification Regarding the Initial Listing of the LNG Japan/Korea Marker (Platts) Average Price Option Contract.
NYMEX Submission No. 18-271

Dear Mr. Kirkpatrick:

New York Mercantile Exchange, Inc. ("NYMEX" or "Exchange") is notifying the Commodity Futures Trading Commission ("CFTC" or "Commission") that it is self-certifying the initial listing of the LNG Japan/Korea Marker (Platts) Average Price Option contract (the "Contract") for trading on the CME Globex electronic trading platform and for submission for clearing via CME ClearPort, effective Sunday, August 26, 2018 for trade date Monday, August 27, 2018, as more specifically described below.

Contract Title	LNG Japan/Korea Marker (Platts) Average Price Option
Commodity Code	JKO
Rulebook Chapter	869
Settlement Method	Financial
Contract Size	10,000 MMBTu
Listing Schedule	Monthly contracts listed for the current year and the next 2 calendar years. Add monthly contracts for a new calendar year following the termination of trading in the December contract of the current year.
First Listed Month	October 2018
Minimum Price Fluctuation	$0.005 per MMBtu
Value per tick	$50.00
Block Trade Minimum Threshold	5 contracts
Termination of Trading	Trading terminates on the last weekday (i.e. Monday to Friday inclusive) in the Settlement Period. If such day is not an Exchange business day, the trade submission shall cease on the preceding Exchange business day. The 'Settlement Period' for a specified contract month shall be the one-month period that starts on, and includes, the 16th calendar day of the month that is two months prior to the contract month, and ends on, and includes the 15th calendar day of the month prior to the contract month.
CME Globex Matching Algorithm	First-In, First-Out (FIFO)

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

Underlying Futures Contract / Commodity Code	LNG Japan/Korea Marker (Platts) Futures (commodity code JKM)
Strike Price Increment	$0.050
Strike Price Listing Rule	Dynamic strikes only
Option Type	European Style

Trading and Clearing Hours:

CME Globex and CME ClearPort	Sunday - Friday 6:00 p.m. - 5:00 p.m. (5:00 p.m. - 4:00 p.m. Central Time/CT) with a 60-minute break each day beginning at 5:00 p.m. (4:00 p.m. CT)

Exchange Fees:

Exchange Fees	Member	Non-Member	International Incentive Programs (IIP/IVIP)
CME Globex	$7.00	$10.00	$9.00
EFP	$7.00	$10.00	
Block	$7.00	$10.00	
EFR/EOO	$7.00	$10.00	

Processing Fees	Member	Non-Member
Cash Settlement	$1.00	$1.00

Other Processing Fees	Fee
Facilitation Fee	$0.60
Give-Up Surcharge	$0.05
Position Adjustment/Position Transfer	$0.10

The Exchange is also notifying the CFTC that it is self-certifying block trading on the Contract with a minimum block threshold of 5 contracts.

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

- **Compliance with Rules**: Trading in the Contract will be subject to all CME Rules, including prohibitions against fraudulent, noncompetitive, unfair and abusive practices as outlined in CME Rule Chapter 4, the Exchange's trade practice rules, the majority of which are contained in Chapter 5 and Chapter 8 of the CME Rulebook, and the dispute resolution and arbitration procedures of CME Rule Chapter 6. As with all products listed for trading on one of CME Group's designated contract markets, trading activity in the Contract will be subject to monitoring and surveillance by CME Group's Market Regulation Department. The Market Regulation Department has the authority to exercise its investigatory and enforcement power where potential rule violations are identified.

- **Contract Not Readily Subject to Manipulation**: The Contract is based on a cash price series that is reflective of the underlying cash market and is commonly relied on and used as a reference price by cash market brokers and commercial market participants.

- **Prevention of Market Disruption**: Trading in the Contract will be subject to the Rules of CME, which include prohibitions on manipulation, price distortion, and disruption to the cash settlement process. As with any new product listed for trading on a CME Group designated contract market, trading activity in the Contract proposed herein will be subject to monitoring and surveillance by CME Group's Market Regulation Department

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

- **Availability of General Information**: The Exchange will publish on its website information in regard to contract specifications, terms, and conditions, as well as daily trading volume, open interest, and price information for the Contract. In addition, the Exchange will advise the marketplace of the launch of the Contract by releasing a Special Executive Report ("SER"). The SER will also be posted on CME Group's website.

- **Daily Publication of Trading Information**: The Exchange will publish contract trading volumes, open interest levels, and price information daily on its website and through quote vendors for the Contract.

- **Execution of Transactions**: The Contract will be listed for trading on the CME Globex electronic trading and for clearing through CME ClearPort. The CME Globex electronic trading venue provides for competitive and open execution of transactions. CME Globex affords the benefits of reliability and global connectivity.

- **Trade Information**: All requisite trade information for the Contract will be included in the audit trail and is sufficient for the Market Regulation Department to monitor for market abuse.

- **Financial Integrity of Contract**: The Contract will be cleared by the CME Clearing House, a derivatives clearing organization registered with the CFTC and subject to all CFTC regulations related thereto.

- **Protection of Market Participants**: CME Rulebook Chapters 4 and 5 set forth multiple prohibitions that preclude intermediaries from disadvantaging their customers. These rules apply to trading in all of the Exchange's competitive trading venues.

- **Disciplinary Procedures**: Chapter 4 of the Rulebook contains provisions that allow the Exchange to discipline, suspend or expel members or market participants that violate the Rulebook. Trading in the Contract will be subject to Chapter 4, and the Market Regulation Department has the authority to exercise its enforcement power in the event rule violations in these products are identified.

- **Dispute Resolution**: Disputes with respect to trading in the Contract will be subject to the arbitration provisions set forth in Chapter 6 of the Rulebook. Chapter 6 allows all nonmembers to submit a claim for financial losses resulting from transactions on the Exchange to arbitration. A member named as a respondent in a claim submitted by a nonmember is required to participate in the arbitration pursuant to Chapter 6. Additionally, the Exchange requires that members resolve all disputes concerning transactions on the Exchange via arbitration.

Pursuant to Section 5c(c) of the Act and CFTC Regulations 40.2(a), the Exchange hereby certifies that listing the Contract complies with the Act, including regulations under the Act. There were no substantive opposing views to the proposal.

The Exchange certifies that this submission has been concurrently posted on the CME Group 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: Exhibit A: NYMEX Rulebook Chapter 869
Exhibit B: Position Limits, Position Accountability and Reportable Level Table in Chapter 5 of the NYMEX Rulebook (attached under separate cover)
Exhibit C: NYMEX Rule 588.H. – ("Globex Non-Reviewable Trading Ranges") Table
Exhibit D: Cash Market Overview and Analysis of Deliverable Supply

Exhibit A
NYMEX Rulebook

Chapter 869
LNG Japan/Korea Marker (Platts) Average Price Option

869100. **SCOPE OF CHAPTER**

The provisions of these rules shall apply to all contracts bought or sold on the Exchange for cash settlement based on the Floating Price. The procedures for trading, clearing and cash settlement of this contract, and any other matters not specifically covered herein shall be governed by the general rules of the Exchange.

869101. **CONTRACT SPECIFICATIONS**

The 'Settlement Period' for a specified contract month shall be the one month period that starts on, and includes, the 16th calendar day of the month that is two months prior to the contract month, and ends on, and includes the 15th calendar day of the month prior to the contract month.

The Floating Price shall be determined following the publication of the DES Japan/Korea daily LNG marker (JKM) by Platts on the last publication day in the Settlement Period. If such day is not an Exchange business day, the Floating Price shall be determined on the following Exchange business day.

The Floating Price for each contract month is equal to the arithmetic average of the DES Japan/Korea Marker (JKM) published in respect of the contract month by Platts in LNG Daily for each day that it is published during the Settlement Period.

869102. **OPTION CHARACTERISTICS**

The number of months open for trading at a given time shall be determined by the Exchange.

869102.A. Trading Schedule

The hours of trading shall be determined by the Exchange.

869102.B. Trading Unit

A LNG Japan/Korea Marker (Platts) Average Price Call Option traded on the Exchange represents the differential between the Floating Price and the strike price, multiplied by 10,000 MMBtu (million British thermal units), or zero, whichever is greater. A LNG Japan/Korean Marker (Platts) Average Price Put Option traded on the Exchange represents the differential between the strike price and the Floating Price, multiplied by 10,000 MMBtu, or zero, whichever is greater.

869102.C. Price Increments

Prices shall be quoted in U.S. dollars and cents per MMBtu. The minimum price fluctuation shall be $0.005 per MMBtu. The minimum price fluctuation for the final settlement (Floating Price) shall be $0.001 per MMBtu.

869102.D. Position Limits, Exemptions, Position Accountability and Reportable Levels

The applicable position limits and/or accountability levels, in addition to the reportable levels, are set forth in the Position Limit, Position Accountability and Reportable Level Table in the Interpretations & Special Notices Section of Chapter 5.

A Person seeking an exemption from position limits for bona fide commercial purposes shall apply to the Market Regulation Department on forms provided by the Exchange, and the Market Regulation Department may grant qualified exemptions in its sole discretion.

Refer to Rule 559 for requirements concerning the aggregation of positions and allowable exemptions from the specified position limits.

869102.E. Termination of Trading

Trading terminates on the last weekday (i.e. Monday to Friday inclusive) in the Settlement Period. If such day is not an Exchange business day, the trade submission shall cease on the preceding Exchange business day.

869102.F. Type of Option

The option is a European-style option cash settled on expiration day.

869103. **EXERCISE PRICES**

Transactions shall be conducted for option contracts as set forth in Rule 300.20.

869104. DISCLAIMER

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<u>Exhibit B</u>

NYMEX Rulebook
Chapter 5
(“Trading Qualifications and Practices”)

Position Limits, Position Accountability and Reportable Level Table in Chapter 5 of the NYMEX Rulebook

(attached under separate cover)

Exhibit C
NYMEX Rulebook
Chapter 5
("Trading Qualifications and Practices")
NYMEX Rule 588.H. – ("Globex Non-Reviewable Trading Ranges") Table

Instrument Name	Globex Symbol	Bid/Ask Reasonability	Non-Reviewable Range (NRR)
LNG Japan/Korea Marker (Platts) Average Price Option	JKO	The greater of delta times the underlying futures non-reviewable range or20% of premium up to 1/4 of the underlying futures' non-reviewable range with a minimum of 1 tick	The greater of the delta times the underlying futures' non-reviewable range or 20% of the fair value premium up to the underlying futures' non-reviewable range with a minimum reasonability of $0.025

(additions are underscored)

Exhibit D
Cash Market Overview and Analysis of the Deliverable Supply

CASH MARKET ANALYSIS

The Futures contract underlying the proposed options contract is financially settled with reference to prices published by S&P Global Platts ("Platts"). "Platts" and "S&P Global Platts" are trademarks of S&P Global Inc. and have been licensed for use by NYMEX.

Platts Japan Korea Marker (JKM™) is the LNG (Liquefied Natural Gas) benchmark price assessment for spot physical cargoes delivered ex-ship into Japan and South Korea. As these two countries take the largest share of LNG imports in the world, Platts JKM™ is thus a key reference in marking product value/market price from supply source to the destination market. The JKM marker is the major price reference for LNG trading in the Asia-Pacific region.

Data Sources:

In its cash market and deliverable supply analysis, the Exchange has incorporated data from a range of sources as described below.

The **UN Comtrade Database** provides free access to detailed global trade data. UN Comtrade is a repository of official trade statistics and relevant analytical tables. It contains annual trade statistics starting from 1962 and monthly trade statistics since 2010[1].

The **International Group of Liquefied Natural Gas Importers, or GIIGNL**, is a non-profit organization whose objective is the development of activities related to LNG markets. GIIGNL's membership is composed of companies active in LNG purchasing, importing, processing, transportation, handling, re-gasification around the world[2].

The **International Energy Agency** is an intergovernmental organization that acts as a policy adviser to its member states focusing on the international oil and energy markets[3]. It maintains a large database of energy statistics.

Liquefied natural gas ("LNG") is a growing part of the international supply and trade of energy. LNG is natural gas that is cooled and compressed into liquid form to make it more readily transportable. LNG is typically transported by sea in specially designed vessels. The GIIGNL states that, a total of 40 countries import LNG and that 19 countries export it. Overall, Asia represents 72.9% of global LNG demand. In 2017, 289.8m MT were imported (increasing 9.9% vs. 2016). Of the total volume imported, 27% was procured on a spot/ short-term basis[4].

The following table shows the largest importers and exporters of LNG in 2017 according to the GIIGNL:

Table 1 Net Imports LNG 2017

Country	Net imports (m MT)
Japan	83.52
China	39.01

[1] https://comtrade.un.org/

[2] https://giignl.org/about-giignl/what-does-giignl-do

[3] https://www.iea.org/about/

[4] https://giignl.org/sites/default/files/PUBLIC_AREA/Publications/rapportannuel-2018pdf.pdf

South Korea	37.83
India	19.22
Taiwan	16.61
Spain	12.10
France	7.35
Turkey	7.33
Egypt	6.18
Pakistan	4.62
Percent of total	**81%**
Total	**289.81**

Source: GIILNG 2018 Annual report – footnote 4

Table 2 Exports LNG 2017

Country	Exports (m MT)
Qatar	77.50
Australia	55.56
Malaysia	26.87
Nigeria	20.34
Indonesia	18.71
Algeria	12.34
USA	12.24
Russia	11.49
Trinidad & Tobago	10.19
Oman	8.24
Percent of total	**87%**
Total	**289.81**

Source: GIILNG 2018 Annual report – footnote 4

The UN Comtrade database provides historic LNG import volumes. Data for Taiwan is not included. Data for 2017 is not included as it is incomplete as of today (China data is missing).

Table 3 East Asia Imports

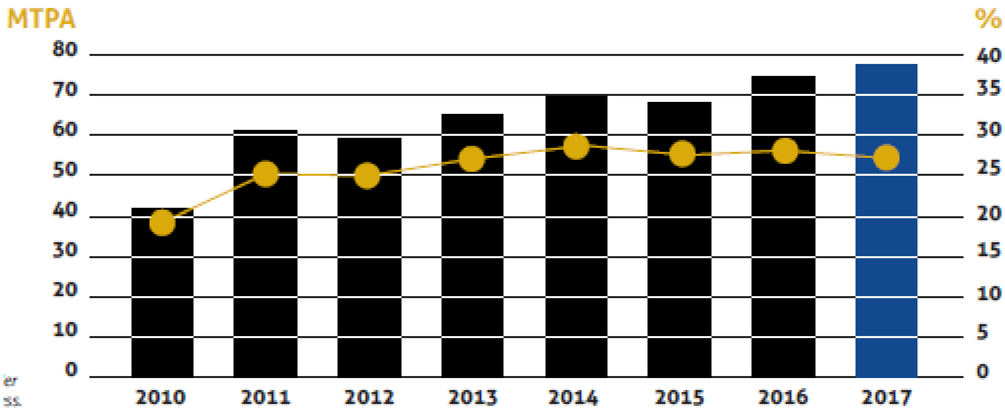
LNG imports (m MT)	2014	2015	2016	Average 2014-2016
Japan	88.5	85.8	83.3	85.9
Republic of Korea	37.1	33.4	33.5	34.7
China	19.8	19.6	26.1	21.8
Total	145.4	138.8	142.9	142.4

Source: Comtrade, Commodity Code 271111

UN Comtrade data shows that combined imports in Japan, Korea and China were 142.2 million Metric Tons per year on average across 2014 to 2016.

The physical LNG market trades on a cargo basis. According to the GIILNG, the global LNG tanker fleet consisted of 511 vessels at the end of 2017. Most vessels had a cargo capacity of 90,000-150,000 cubic meters (223 of the total). Many cargoes are sent as part of term supply agreement, but a growing share of the total is tied to spot/ short-term purchases (27% of total in 2017). Spot LNG cargoes are typically traded in U.S. dollars, on a price per energy content (i.e. $ per MMBtu) basis. Pricing on this basis accounts for variances in the chemical content of various LNG sources, and for different pressure and temperature regimes on different vessels.

Chart 1 Spot & Short-term (duration of 4 years or less) vs total LNG trade



Source: GIILNG Annual Report 2018 – footnote 4

The share of spot and short-term deals is increasing because of the increase of US exports, increased contracting for portfolio trade and the growing volume handled by trading intermediaries. Historically, the market for LNG was restrictive in the sense that long-term supply agreements did not allow for destination flexibility. Today, non-destination restricted term cargoes are re-traded multiple times and may be redirected. Overall, destination restrictions are being progressively shelved. In 2017, the Japan Fair Trade Commission stated that restrictions that stopped customers from reselling LNG cargoes violated the Japanese Antimonopoly act[5]. The Korean Fair Trade Commission is currently also weighing whether to start a similar investigation.

The IEA states that recently signed long-term contracts tend to be characterized by a) an increased share of contracts with flexible destination clauses and b) a decrease in average contract length[6]. Currently, about 40% of long-term contract have destination flexibility. At the 2017 annual LNG Producer-Consumer Conference organized by the Japanese Ministry of Economy, Trade and Industry (METI), participants stated that more than 50% of LNG would be traded without destination clauses in the next 10 years[7].

[5] http://www.meti.go.jp/english/press/2017/pdf/1019_001b.pdf

[6] https://www.iea.org/publications/freepublications/publication/GlobalGasSecurityReview2017.pdf, page 47

[7] http://www.meti.go.jp/english/press/2017/pdf/1019_001b.pdf , page 10

Table 4 Characteristics of long-term contracts

Table 2.2 • Contract evolution by 2016

	Destination flexibility	Average ACQ (bcm)	Average duration (y)	Share with destination flexibility
Signed before 2014	Fixed	1.52	15	60.6%
	Flexible	2.13	17	39.4%
	Total	**1.71**	**16**	**100.0%**
Signed in 2015	Fixed	0.83	7	59.5%
	Flexible	1.23	15	40.5%
	Total	**0.96**	**10**	**100.0%**
Signed in 2016	Fixed	1.14	8	58.1%
	Flexible	1.26	12	41.9%
	Total	**1.19**	**9**	**100.0%**

Notes: ACQ = annual contractual quantity; y = year.

Source: IEA

ANALYSIS OF DELIVERABLE SUPPLY

In estimating deliverable supply for the contract, the Exchange relied on long-standing precedent, which provides that the key component in estimating deliverable supply is the portion of typical production and supply stocks that could reasonably be considered to be readily available for delivery. In its guidance on estimating deliverable supply, the Commodity Futures Trading Commission ("CFTC" or "Commission") states:

> *In general, the term "deliverable supply" means 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. Typically, deliverable supply reflects the quantity of the commodity that potentially could be made available for sale on a spot basis at current prices at the contract's delivery points. For a non-financial physical-delivery commodity contract, this estimate might represent product which is in storage at the delivery point(s) specified in the futures contract or can be moved economically into or through such points consistent with the delivery procedures set forth in the contract and which is available for sale on a spot basis within the marketing channels that normally are tributary to the delivery point(s).*[8]

Table 3 above shows that the average imports into Japan, Korea and China for 2014-2016 were 142.4 million metric tons. It should be noted that that a substantial proportion of these imports were the result of medium and long-term supply contracts. The Exchange has conducted an analysis of the impact of medium and long-term supply contracts on the deliverable supply.

Given the presence of cargoes resulting from contracts that are destination restricted, the Exchange has determined to adjust the available import volumes by the amount of fixed delivery cargoes. Of the total LNG trade, 27% of the total is traded in flexible spot and short-term markets (source: GIILNG). Of the remaining share, 40% is traded with destination flexibility (source: IEA), with the market anticipating that share to grow to 50% gradually The Exchange therefore estimates that fixed-delivery cargoes represented 43.8% of total LNG imports into Japan, Korea and China (60% of 73% non-spot/ short-term contracts).

Consequently, the adjusted import availability is 56.2% of 142.4 million metric tons, or 80.03 million metric tons. According to the IEA's statistics manual[9], a kilogram of LNG is equivalent to 51,560 Btu, or a metric ton is equivalent to 51.56 MMBtu. Using this conversion factor, 80.03 million metric tons is equivalent to 4,126,284,928 MMBtu annually, or 343,857,077 MMBtu per month.

The contract size of the underlying monthly contract is 10,000 MMBtu, resulting in a Deliverable Supply of 34,386 Lots per month. The spot month position limit has been set at 5,000 lots. This represents 14.5% of Deliverable Supply.

[8] http://www.ecfr.gov/cgi-bin/text-idx?SID=74959c3dbae469e2efe0a42b45b8dfae&mc=true&node=ap17.1.38_11201.c&rgn=div9

[9] https://www.iea.org/publications/freepublications/publication/statistics_manual.pdf, table A3.9