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Thomas LaSala MD, CRO CME Group

CME Group Market Regulation Resources & Responsibilities

- A CME Group department with offices in Chicago & New York
- Approximately 180 employees
 - Market Surveillance 56 employees --20 NY staff committed for Energy & Metals
 - Monitor reported large trader positions (90% of OI) and physical market prices, fundamentals and news
 - Detect, deter and prevent market manipulation
 - Ensure (real-time) that price aberrations in the futures or physical markets are not caused by the market power of large traders
 - Ensure orderly liquidation of contracts
 - Review compliance with CFTC & exchange imposed position limits
 - Review requests for hedge and other types of position limit exemptions
 - Review positions exceeding position accountability levels
 - Review Exchange for Related Position (EFRP) transactions
 - Monitor deliveries in cooperation with CME Clearing

DCM Practices & Experience Continue to be Effective

- Exchanges administer Accountability across the Curve
- Exchanges have a long history of managing exemptions to spot limits

Position Accountability

- **POSITION ACCOUNTABILITY**

- Allows Exchange to get detailed information from a position holder
- Gives the Exchange the authority to require the participant not increase their position or to order liquidation of a position.
- Position Accountability levels are set at NYMEX to maximize regulatory flexibility, affording the SRO ability to act on positions across the curve of futures months which extend up to 10 years.
- Internal OI assessments going out the curve as to when to begin applying concentration metrics (foster liquidity, but do not compromise integrity due to concentration).
- Applicable on F/E or futures only basis (lessons learned-Amaranth)
- Accountability Thresholds are purposely set low.

	Front Month	% of OI	All month	% of OI
NG	6,000	2.70%	12,000	1.14%
RBOB	5,000	4.29%	7,000	2.34%
HO	5,000	4.27%	7,000	2.03%
CL	10,000	1.86%	20,000	0.86%

Items Considered in Applying Position Accountability Rules

- The absolute size of the position relative to the size of open interest in the relevant contract;
- The nature of customer's business (e.g. speculator/traditional hedger/swap dealer);
- The size of the position relative to other position holders/comparable entities;
- The type of position (e.g. outright, intra-commodity spread, inter-commodity spread)
- The location of the position on the curve (e.g. expiration, nearby or deferred month);
- Market fundamentals (i.e. congested market, unusual basis or spread relationships);
- The position relative to the historical position levels for the account in question as well as the accounts history of managing their position;
- Participant exhibits abrupt position accumulation or uncharacteristic behavior in the marketplace.

Exchange Administered Accountability has been Effective in Ensuring Properly Functioning, Orderly Markets

- Summary of 2014

<u>ACCOUNTABILITY LEVELS</u>	6,000	10,000	5,000	5,000
Front Month	Natural Gas	Crude Oil	RBOB	Heating Oil
Largest Position Range	6,123.497 - 51,515.794	10,066.017 - 62,421.836	5,019.979 - 15,374	5,023.135 - 17,347.689
Largest Position Percentage of OI Range	1.81% - 18.95%	1.80% - 11.12%	3.81% - 15.32%	3.57% - 14.52%
Average Percentage of OI	6.18%	3.94%	6.70%	7.66%
Number of Participants	30	18	16	11
All Month	12,000 Natural Gas	20,000 Crude Oil	7,000 RBOB	7,000 Heating Oil
Largest Position Range	12,225.429 - 92,214	20,165.113 - 77,904.546	7,020 - 18,004	7,049.424 - 31,212
Largest Position Percentage of OI Range	0.93% - 8.35%	.84% - 3.41%	2.14% - 5.67%	1.62% - 11.16%
Average Percentage of OI	2.88%	1.75%	3.13%	3.77%
Number of Participants	24	22	16	10

Existing NYMEX Hedge Exemption Rules:

- 559.A. Bona Fide Hedging Position
 - A customer must demonstrate that it's futures position represents a substitute for positions to be taken at a later time in a physical market channel, is economically appropriate to the reduction of risk for their commercial business and arises from a change in the value of the participants current or anticipated assets or liabilities. Covers positions hedging ownership, fixed-price purchases and fixed-price sales of the same cash commodity and a person's unfilled anticipated requirements of the same cash commodity for that month and for the next succeeding month pursuant to CFTC Regulation § 1.3(z).
- 559.B. Risk Management Position
 - Risk management positions are defined as futures and options positions which are held by or on behalf of an entity or an affiliate of an entity which typically buys, sells or holds positions in the underlying cash market, a related cash market, or a related over-the-counter market and for which the underlying market has a high degree of demonstrated liquidity relative to the size of the positions and where there exist opportunities for arbitrage which provide a close linkage between the futures or options market and the underlying market in question. Covers positions hedging floating price purchases and sales, cross-commodity purchases, sales, and inventory, anticipatory exposures and OTC bilateral swaps. Exemptions related to indexed positions in the over-the-counter market may include corresponding commodity index-based futures and options and/or individual commodity futures and options used as components in replicating an index.
- 559.C. Arbitrage and Spread Position
 - The Market Regulation Department may grant exemptions from the position limits for arbitrage, intracommodity spread, intercommodity spread, and eligible option/option or option/futures spread positions. A customer can apply for exemptions using NYMEX physical against certain related NYMEX financially settled contracts. ICE contracts that clear as Futures can be used, provided they are also highly correlated.

Exemptions In Core Energy Markets For Commercial Participants

<u>Exemption Type</u>	<u>CL</u>	<u>HO</u>	<u>RB</u>	<u>NG</u>	<u>Total Open</u>
Hedge	3	4	2	1	10
Hedge/Risk	14	21	24	14	73
Hedge/Risk/ARB	3	4	2	3	12
Hedge/ARB	0	0	0	0	0
Risk	8	3	6	0	17
Risk/ARB	1	0	0	0	1
ARB	9	5	5	22	41
Totals:	38	37	39	40	154 (85 unique entities)

- As of 2-23-15 & Additionally note 16 Additional COMEX, 4 NYMEX Metals & 140 Other Energy & Power

Key Components Of Any Approval

- A specified size is approved. Not open ended.
- CMEG can order freeze of position irrespective of whether position represents bona fide hedge.
- CMEG can order liquidation down to the position limit irrespective of whether position represents bona fide hedge.
- CMEG can request information at any time.
- While exemptions are approved on an annual basis, once an exemption is in place, market regulation can review and take the actions described above on a case by case basis based on market conditions or other relevant factors.

Restricting Risk Management Exemptions Will Negatively Effect Markets

- Commercial Users effectively utilize such exemptions in the spot month today.
- NYMEX effectively manages such exemptions.
- Restricting activity such as cross hedging in the spot period, anticipatory merchandising or imposing minimum correlations for cross hedging will inhibit the price discovery process.
- Reductions in commercial activity in the price discovery process will have a negative impact on liquidity and will likely add to price volatility, decreasing the efficiency of the market(s) and ultimately negatively impacting consumers.



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