



**U.S. COMMODITY FUTURES TRADING
COMMISSION**

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**DIVISION OF
MARKET OVERSIGHT**

January 18, 2007

Ms. Ann M. Cresce
Senior Vice President & General Counsel
Chicago Climate Futures Exchange
190 South LaSalle Street, Suite 800
Chicago, IL 60603

Subject: Information request concerning the Chicago Climate Futures Exchange
European Carbon Financial Instrument futures contract, pursuant to
Commission Regulation 40.2(b).

Dear Ms. Cresce:

In a submission dated September 20, 2007, the Chicago Climate Futures Exchange (CCFE or Exchange) submitted to the Commission under the self-certification procedures of Section 5c(c)(1) of the Act and Commission Regulations 40.2 and 40.6(a), the terms and conditions of its European Carbon Financial Instrument (ECFI) futures contract. The ECFI futures contract is cash settled based on the US dollar equivalent value of the final settlement price for the ECX CFI futures contract, which is listed for trading by the IntercontinentalExchange (ICE).

A Designated Contract Market (DCM), such as the CCFE, may list for trading new products by self-certification under Commission Regulation 40.2. In doing so, a DCM accepts responsibility "for assuring that [its] products and rules comply with the applicable designation criteria and core principles. When a DCM self-certifies a product or rule, it is, in effect, pledging that the product or rule does meet those standards. Assuming the DCM is acting in good faith, it must have some reasonable basis for making that pledge."¹

As you know, staff in the Commission's Division of Market Oversight (Division) reviews all new futures and option contracts that are listed for trading by DCMs to assure that the products and rules comply with applicable designation criteria and core principles. In this regard, when conducting its due diligence review, DMO staff gives special consideration to Core Principle 3 (listed contracts should not be readily susceptible to manipulation), and Core Principle 5 (adoption of position limits or position accountability rules to reduce the threat of market manipulation or distortion, especially in the delivery month).

Accordingly, to determine whether the new CCFE futures contracts meet the requirements of the Core Principles, Division staff hereby requests, pursuant to Commission Regulation 40.2(b), that the Exchange respond to the following issues concerning the

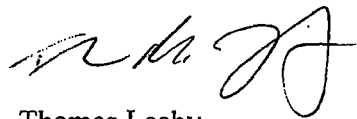
¹ See the January 12, 2006, Federal Register notice (71 FR 1953) concerning amendments to Part 40 of the Commission's regulations.

determination of the settlement price series for ICE's ECX CFI futures contract. Commission Regulation 40.2(b) states that a "registered entity shall provide, if requested by Commission staff, additional evidence, information or data relating to whether the contract meets, initially or on a continuing basis, any of the requirements of the Act or Commission regulations or policies thereunder which may be beneficial to the Commission in conducting a due diligence assessment of the product and the entity's compliance with these requirements."

- Please provide information concerning how ICE computes the final settlement prices for its ECX CFI contract. Have there been instances where trading volumes were low and ICE used alternate information, such as cash market data, to determine the final settlement price for its ECX CFI contract?
- Please provide final settlement prices and closing range trading volume in the ECX CFI futures contract for all contract months expiring since April 2005.
- If closing range trading data are not available, please provide an estimate of the deliverable supply of European carbon allowances. If this approach is taken, please describe the methodology and data used in the analysis.
- Has ICE objected, either publicly or privately to the CCFE, to the use of the ECX CFI futures contract's settlement price series.
- Does CCFE have an information-sharing agreement with ICE to help detect and prevent manipulation of the underlying ICE futures settlement price by traders wishing to advantage a CCFE futures position?
- Please describe what measures ICE has taken to safeguard the ECX CFI's settlement price series from manipulation.
- Please explain how the ECX CFI settlement price series is a reliable indicator of cash market values and is acceptable for hedging.

The Division would appreciate a response by February 1, 2008. If you have any questions about this request, please feel free to contact Gregory Price at (202) 418-5515.

Sincerely,



Thomas Leahy
Associate Director for Product Review