CME Group

May 12, 2011

**VIA E-MAIL**
Mr. David Stawick
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

**Re: Rule Certification. New York Mercantile Exchange, Inc. Submission # 11-191: Notification Regarding the Listing of a Tanker Freight Swap Futures Contract for Trading on the NYMEX Trading Floor and for Clearing through CME ClearPort, and a Tanker Freight Forward Contract for Clearing through CME ClearPort**

Dear Mr. Stawick,

The New York Mercantile Exchange, Inc. ("NYMEX" or the "Exchange") is notifying the Commodity Futures Trading Commission ("CFTC" or "Commission") that it is self-certifying the listing of a financially settled tanker freight swap futures contract for trading on the NYMEX trading floor and for submission for clearing through CME ClearPort, and a financially settled tanker freight forward contract for clearing through CME ClearPort only, each beginning at 6:00 p.m. on Sunday, May 15, 2011, for trade date Monday, May 16, 2011.

In respect of the swap futures contract, the Exchange will allow the exchange for related position (EFRP) transactions to be submitted through CME ClearPort. EFRP transactions in this futures contract will be governed by the provisions of Exchange Rule 538.

The specifications of the two tanker freight contracts are provided below for your convenience:

| Contract Title | Commodity Code | Rule Chapter | First Listed Month | Listing Period |
|---|---|---|---|---|
| Freight Route TC12 (Baltic) Swap Futures | FRS | 522 | May 2011 | 24 consecutive months |
| Freight Route TC12 (Baltic) Forward | FRB | 530 | May 2011 | Consecutive monthly contracts for the current year and next full calendar year |

For the Futures:

- Contract Size: 1,000 Metric Tons
- Termination of Trading: Last UK business day of the month
- Minimum Price Tick: $0.0001
- Value per Tick: $0.10
- Final Settlement Tick: $0.0001
- Trading and Clearing Hours:
  CME ClearPort: Sunday – Friday 6:00 p.m. – 5:15 p.m. (5:00 p.m. – 4:15 p.m. Chicago Time/CT) with a 45-minute break each day beginning at 5:15 p.m. (4:15 p.m. CT).
  Open Outcry: Monday – Friday 9:00 a.m. – 2:30 p.m. (8:00 a.m. – 1:30 p.m. CT).

For the Forward:

- Contract Size: 1,000 Metric Tons
- Termination of Trading: Last UK business day of the month, except December months when last trading day is 24 December or preceding UK business day if 24 December is not a business day. Trading shall cease on the last business day of the contract month
- Minimum Price Tick: 0.001% of Worldscale Flat Rate
- Value per Tick: Variable

- Final Settlement Tick: 0.0001% of Worldscale Flat Rate
- Trading and Clearing Hours:
  CME ClearPort: Sunday – Friday 6:00 p.m. – 5:15 p.m. (5:00 p.m. – 4:15 p.m. Chicago Time/CT) with a 45-minute break each day beginning at 5:15 p.m. (4:15 p.m. CT).

Trading and clearing fees will be as follows:

| Contract | CME ClearPort Rates | | NY Trading Floor Rates | | Cash Settlement Fee | |
|---|---|---|---|---|---|---|
| Freight Route TC12 (Baltic) Swap Futures | Member | $4.00 | Member | $4.00 | Member | $0.00 |
| | Non-Member | $5.00 | Non-Member | $5.00 | Non-Member | $0.00 |
| | | | Blended Floor | $4.50 | | |
| Freight Route TC12 (Baltic) Forward | Member | $4.00 | Member | n/a | Member | $0.00 |
| | Non-Member | $5.00 | Non-Member | n/a | Non-Member | $0.00 |
| | | | Blended Floor | n/a | | |

In addition, the Exchange is self-certifying the ClearPort Volume Discount Program, below, as it pertains to Freight Route TC12 (Baltic) Swap Futures and Freight Route TC12 (Baltic) Forward transactions.

| ClearPort Volume Discount Program | | | |
|---|---|---|---|
| | Monthly Volume | Reduced ClearPort Exchange Fee | |
| Product Name | Threshold (sides) | Member | Non-Member |
| Freight Route TC12 (Baltic) Swap Futures | 150 | 2.40 | 3.00 |
| Freight Route TC12 (Baltic) Forward | 150 | 2.40 | 3.00 |

The Exchange will provide central counterparty clearing services for the tanker freight forward. The NYMEX rulebook chapter attached to this letter sets out the terms for which such OTC transactions may be accepted for clearing, and establish the terms for such transactions that are accepted into clearing.

The tanker freight forward contract will remain as a forward contract within the clearing environment. The contract will require cash settlement on maturity, as described below. Customer positions and associated funds will be held in accounts governed by CFTC Regulation 190.

The Exchange shall restrict the availability of the clearing service to Eligible Contract Participants, as defined in Section 1a(12) of the Commodity Exchange Act ("Act").

The clearing service being offered by the Exchange supports the OTC market which is based on standards established by the Baltic Exchange and the Forward Freight Agreement Brokers Association. Market prices are quoted as a percentage of the Worldscale flat rate for the route in question, as published by the Worldscale Association. On maturity, the monthly average price for physical transactions is established by the Baltic Exchange, and cash settlement is performed to reflect the difference, as a percentage, between the traded price and the final settlement price, multiplied by the prevailing Worldscale flat rate. As this prevailing rate may not be known at the time of trade, open positions are maintained as forwards until maturity, when the final settlement value can be properly determined.

Pursuant to Section 5c(c) of the Act, and CFTC Regulations 39.4(c)(2), 40.2 and 40.6, the Exchange hereby certifies that the trading and/or clearing of the attached contracts and their rules and terms and conditions comply with the Act, including regulations under the Act. There were no substantive opposing views to this proposal. The listing of these contracts will become effective on trade date Monday, May 16, 2011.

Should you have any questions concerning the above, please contact Richard Stevens, telephone +44 20 7796 7129, mobile +44 7590 182 843, email richard.stevens@cmegroup.com, or the undersigned at (212) 299-2207, (347) 463-5347 or felix.khalatnikov@cmegroup.com.

Sincerely,

/s/ Felix Khalatnikov
Dir & Assoc General Counsel

Attachments: Contract terms and conditions
Cash Market Overview and Analysis of Deliverable Supply

# Chapter 522
# Freight Route TC12 (Baltic) Swap Futures

## 522.01. SCOPE

The provisions of these rules shall apply to all contracts bought or sold on the Exchange for cash settlement based on the Floating Price.

## 522.02. FLOATING PRICE

The Floating Price for each contract month is equal to the arithmetic average of the rates for each business day that the TC12 Tanker Route (for 35,000 metric tons Sikka, West Coast India to Chiba, Japan) is published by the Baltic Exchange over the contract month. If for any reason the Baltic Exchange cannot provide any rate required for establishing the Floating Price, then the Forward Freight Agreement Brokers Association (FFABA) may be instructed by either party to form a panel to establish any rate which will be binding on both parties.

## 522.03. CONTRACT QUANTITY AND VALUE

The contract quantity shall be 1,000 metric tons. Each contract shall be valued as the contract quantity (1,000) multiplied by the settlement price.

## 522.04. CONTRACT MONTHS

Trading shall be conducted in contracts in such months as shall be determined by the Exchange.

## 522.05. PRICES AND FLUCTUATIONS

Prices shall be quoted in U.S. dollars and cents per metric ton. The minimum price fluctuation shall be $0.0001 per metric ton. There shall be no maximum price fluctuation.

## 522.06. TERMINATION OF TRADING

Trading shall cease on the last business day of the contract month.

## 522.07. FINAL SETTLEMENT

Delivery under the contract shall be by cash settlement. Final settlement, following termination of trading for a contract month, will be based on the Floating Price. The final settlement price will be the Floating Price calculated for each contract month.

## 522.08. EXCHANGE FOR RELATED POSITION

Any Exchange for Related Position (EFRP) transaction shall be governed by the provisions of Exchange Rule 538.

## 522.09. DISCLAIMER

The Baltic Exchange licenses The New York Mercantile Exchange, Inc. ("NYMEX") to use various Baltic Exchange price assessments in connection with the trading or posting of the contracts.

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# Chapter 530
# Freight Route TC12 (Baltic) Forward

## 530.01 SCOPE

The provisions of these Rules shall apply to all forward contracts bought or sold on the Exchange for cash settlement based on the Floating Value.

## 530.02 FLOATING PRICE

The Floating Price for each contract month is denominated in percentage points of the prevailing Worldscale rate as published by Worldscale Association during the Settlement Period, and is equal to the arithmetic average of the rates for the TC12 route (for 35,000 metric tons Sikka, West Coast India to Chiba, Japan) published by the Baltic Exchange for each business day that it is published during the contract Settlement Period, as described in paragraph 530.04 of these Rules.

## 530.03 FLOATING VALUE

The Floating Value for each contract month is denominated in US Dollars and cents per metric ton, and is equal to the Floating Price multiplied by the Worldscale rate as published by Worldscale Association in respect of the TC12 route applicable to prompt transactions in the freight market during the Settlement Period.

## 530.04 SETTLEMENT PERIOD

For contract months referenced to a calendar month January to November inclusive, the Settlement Period shall be the full calendar month. For contract months referenced to the December calendar month, the Settlement Period shall be the period from and including the 1st calendar day of the month through to and including the 24th calendar day of the month.

## 530.05 CONTRACT QUANTITY AND CONTRACT VALUE

The contract quantity shall be 1,000 metric tons. Each contract shall be valued as the contract quantity (1,000) multiplied by the settlement price.

## 530.06 CONTRACT MONTHS

Trading shall be conducted in contracts in such months as shall be determined by the Exchange.

## 530.07 PRICES AND FLUCTUATIONS

Prices shall be quoted in percentage points (and parts thereof) of the Worldscale rate as published by Worldscale Association in respect of the TC12 route applicable to prompt transactions in the freight market during the Settlement Period. The minimum price fluctuation in respect of orders, traded prices and daily settlement prices shall be 0.001%. The minimum price fluctuation in respect of the Floating Price shall be 0.0001%. There shall be no maximum price fluctuation.

## 530.08 TRADED VALUE

The Traded Value is denominated in US Dollars and cents per metric ton, and is equal to the traded price multiplied by the Worldscale rate as published by Worldscale Association in respect of the TC12 route applicable to prompt transactions in the freight market during the Settlement Period.

## 530.09 TERMINATION OF TRADING

Trading shall cease at 5:30 p.m. London time on the last business day of the Settlement Period.

## 530.10 FINAL SETTLEMENT

Delivery under the contract shall be by cash settlement. Final settlement, following termination of trading for a contract month, will be based on the Floating Value. The final settlement price will be the Floating Price calculated for each contract month. The final settlement value will be the Floating Value calculated for each contract month.

Cash settlement of forward positions shall result in the transfer of the difference in value between the Floating Value and the Traded Value, multiplied by the contract quantity, such that where the amount calculated as

(Floating Value – Traded Value) × contract quantity

is a positive value, the value is paid by the seller and received by the buyer, and where such difference is a negative value, the value is paid by the buyer and received by the seller. Such transfer shall occur after the Last Trading Day at a time specified by the Exchange.

**530.11 DISCLAIMER**

The Baltic Exchange licenses the New York Mercantile Exchange, Inc. ("NYMEX") to use various Baltic Exchange price assessments in connection with the trading or posting of the contracts.

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## CASH MARKET OVERVIEW

The products referenced in this submission are products relating to the international seaborne tanker freight market, i.e. the market for providing shipping freight for crude oil and refined oil products.

The United Nations Conference on Trade and Development ("UNCTAD") estimates total international seaborne trade to equal 7.843 billion tons for all cargoes in 2009, falling from 8.210 billion tons in 2008. This 2009 figure represents an increase of 31.1% over the equivalent number for the year 2000. Of this, cargoes of oil and oil products represent 2.649 billion tons, falling from 2.732 billion tons in 2008 and 2.747 billion tons in 2007. Trade in cargoes of oil and oil products has grown 22.5% since the year 2000[1]. The fall in freight volumes in 2009 can be explained by the fall in general economic activity during the period.

The chartering of seaborne freight is a privately negotiated activity between the ship owner and the charterer, with each transaction having unique features. However standards have been established for the marketplace by trade associations, most notably the Baltic Exchange based in London.

The size of a vessel is measured by its deadweight tonnage ('dwt'), which is a measure of the weight in metric tonnes a vessel can safely carry, including cargo, fuel, water etc. Oil tankers are loosely categorized into a range of vessel sizes. Very Large Crude Carrier ('VLCC') is the term given to vessels with a capacity in excess of 250,000 dwt, and the term Ultra Large Crude Carrier ('ULCC') is used for the largest of these vessels – the largest being over 440,000 dwt, the equivalent of over 3 million barrels of oil. These vessels carry crude oil on major trans-ocean routes. Suezmax vessels are smaller in size than VLCCs, and are typically between 130,000 and 160,000 dwt. Suezmax vessels are named as such as they are the largest tankers that can transit the Suez Canal. Aframax vessels are typically between 70,000 and 110,000 dwt. VLCCs, Suezmax and Aframax vessels are typically used for carrying crude oil, and are referred to in the industry as 'dirty' tankers. Refined oil products are usually transported in smaller vessels referred to as 'clean' tankers. These vessels typically range in size from 20,000 to 75,000 dwt.

[1] See UNCTAD Review of Maritime Transport 2010, http://www.unctad.org/en/docs/rmt2010ch1_en.pdf

There are two main types of vessel charter arrangement. Voyage charters involve the charterer hiring the vessel to carry a cargo between two specified ports. The freight payment for a voyage charter is assessed in terms of dollars per ton of cargo carried. Time charters involve the charterer hiring the vessel for a period of time, during which it can direct the movement of the vessel, although typically the vessel will follow a route between two ports. The freight payment for a time charter is assessed in terms of dollars per day of charter.

Tanker charters are typically voyage charter arrangements. The pricing of the transaction is expressed as percentage of the Worldscale flat rate (officially known as the "New Worldwide Tanker Nominal Freight Scale"), assessed and published by the Worldscale Association[2]. This flat rate represents a fixed value in dollars per metric ton for a specific route. The market convention is to quote current tanker freight prices as a percentage of this figure, rather than an explicit dollar value for each transaction.

In order to develop the functioning of the freight market, the Baltic Exchange has developed standard definitions for freight routes which are frequently chartered. The Baltic Exchange collates market price data from shipbrokers on these specified routes, and publishes market price assessments on a daily basis. Other price reporting agencies also collate and publish market price data, most notably Platts, which is seen as the most relevant price reference for certain Pacific Ocean routes.

NYMEX has a license agreement with the Baltic Exchange to use their data as an underlying reference for settling derivatives contracts. The Baltic Exchange price assessment methodology can be found at www.balticexchange.com.

The TC12 Freight Route, which is the underlying reference for the two contracts referenced in this submission, has been developed by the Baltic Exchange in response to industry demand, and is described as follows:

| **Route TC12** |
| --- |
| 35,000 mt Naptha Sikka (WCI) to Chiba, Japan, with laydays cancelling 7/14 days in advance. Maximum 15 years , double hull, oil major approved |

Source: Baltic Exchange[3]

[2] See http://www.worldscale-usa.com/

[3] Source: www.balticexchange.com

Route TC12 is a route for refined oil products, specifically naphtha, loaded at the port of Sikka (Jamnagar terminal) on the West Coast of India and discharged at the port of Chiba in Japan.

Derivatives contracts have traded on tanker routes for a number of years. The derivatives traded in the over the counter market are structured as cash settled calendar swaps, where the final settlement price is the average price published by either the Baltic Exchange or Platts during the calendar month. The Baltic Exchange has been collating volume data for traded tanker forwards contracts since Q2 2009, and quarterly volumes are as follows:

| | Dirty | Clean |
|---|---|---|
| Q2 2009 | 40,183 | 50,109 |
| Q3 2009 | 26,643 | 38,897 |
| Q4 2009 | 48,202 | 33,948 |
| Q1 2010 | 55,869 | 36,364 |
| Q2 2010 | 60,612 | 33,205 |
| Q3 2010 | 43,135 | 36,974 |
| Q4 2010 | 56,969 | 31,463 |
| Q1 2011 | 64,822 | 41,772 |

Source: Baltic Exchange

The figures in the table above measure the number of derivatives lots traded, with a standard lot size of 1,000 metric tons being applied. The notional value of derivatives contracts traded, in $millions is as follows:

| | Dirty | Clean |
|---|---|---|
| Q2 2009 | 484.15 | 1,155.50 |
| Q3 2009 | 277.40 | 944.93 |
| Q4 2009 | 711.86 | 954.97 |
| Q1 2010 | 1,021.05 | 1,112.55 |
| Q2 2010 | 984.98 | 956.32 |
| Q3 2010 | 453.32 | 1,023.82 |
| Q4 2010 | 797.86 | 877.00 |
| Q1 2011 | 919.27 | 1,527.33 |

Source: Baltic Exchange, CME Group

Given the nature of the market, import and export statistics are not available.

**Market Participants**

The market participation in the tanker freight derivatives market is diverse. Market participants number in excess of fifty companies. A partial listing is as follows:

| Oil Companies | Shipping and Trading Companies | Brokers | Financial Companies |
|---|---|---|---|
| BP | Vitol | Clarksons | Citi |
| Shell | Glencore | SSY | Morgan Stanley |
| Total | Trafigura | ACM-GFI | Macquarie |
| Statoil | Noble | ICAP | UBS |
| Conoco Phillips | Cargill | Braemar | Newedge |
| | Koch | Spectron | Nordea Bank |
| | Mercuria | | BNP Paribas |
| | Mitsubishi | | M2M |
| | Bravo Tankers | | |
| | Heidmar | | |
| | TORM | | |
| | Tokyo Marine | | |
| | Frontline | | |

## ANALYSIS OF DELIVERABLE SUPPLY

The TC12 freight route is a refined oil product tanker route. The route assessment is for tankers of 35,000 metric tons deadweight carrying naphtha from the west coast of India to Japan.

The United Nations Conference on Trade and Development ("UNCTAD") estimates total international seaborne trade for oil products in millions of metric tons of cargo as follows:

| | World | Asia |
|---|---|---|
| **2006** | 914.8 | 357.0 |
| **2007** | 933.5 | 358.1 |
| **2008** | 946.9 | 339.3 |
| **2009** | 924.6 | 355.5 |

Source: UNCTAD[4]

The lot size for the TC12 contracts is 1,000 metric tons. The figure of 924.6 million metric tons for world trade represents an equivalent of approximately 77,000 contract lots per calendar month, and the figure of 355.5 million metric tons for Asian trade represents an equivalent of approximately 29,500 contract lots per calendar month.

Data is not available which breaks down the tanker freight market into individual routes, however it should be noted that the TC12 route is one of only twelve refined tanker routes that are defined and reported on by the Baltic Exchange. Seven of these routes have an Asian focus.

For the Freight Route TC12 (Baltic) Swap Future, the Exchange has set a position limit of 500 lots for expiring month positions. This amount represents 1.7% of the monthly Asian refined oil product freight figure, and 0.6% of the monthly world refined oil product freight figure.

The Exchange does apply position limits to tanker freight forward contracts, which are cleared as OTC contracts. However the Exchange will apply position accountability levels to this product, and will apply position accountability levels to non-expiring months of the swap future contract.

Amendments to the Position Limit, Position Accountability and Reportable Level Table located in the Interpretations and Special Notices section of Chapter 5 of the NYMEX Rulebook in relation to the listing of the contracts will be self-certified under separate cover.

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[4] See UNCTAD Review of Maritime Transport 2010, Chapter 1: http://www.unctad.org/en/docs/rmt2010ch1_en.pdf